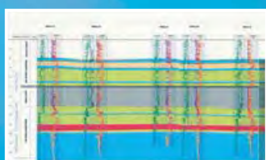
Annual Report 2006

Working for a Better Tomorrow

OIL & GAS DEVELOPMENT COMPANY LIMITED



OGDCL
focusing on and strengthening core E&P functions by incorporating international best practices

Contents

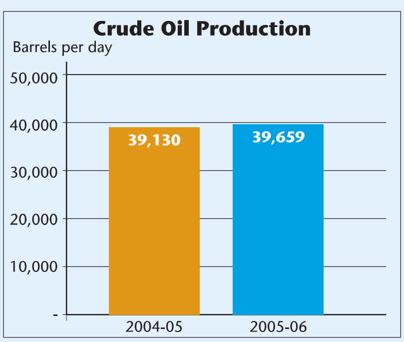
Highlights of the Year

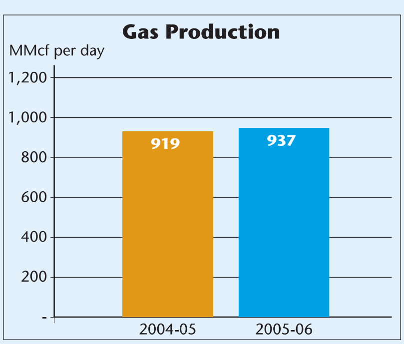
OPERATIONAL HIGHLIGHTS

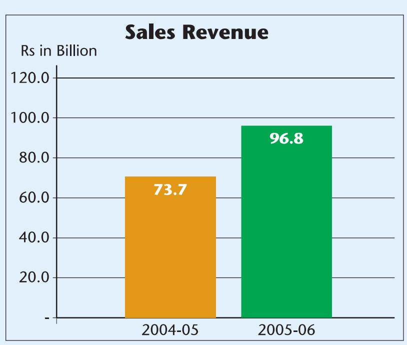
- Crude oil production including share from joint ventures (JVs) averaged 39,659 barrels per day.
- Gas production including share from JVs averaged 937 MMcf per day.
- LPG production including share from JVs averaged 358 M.Tons per day.
- Acquisition of 16 new exploration licenses covering an area of 28,066 Sq. Kms.
- Seismic acquisition of 4,902 L.Kms of 2-D and 395 Sq. Kms of 3-D.
- 100% drilling targets achieved by spudding 24 exploratory/ appraisal and 6 development wells.
- 5 oil and gas discoveries at Nim-1, Dars Deep-1, Tando Allah Yar North-1, Kunnar Deep-1 and Bahu-1.

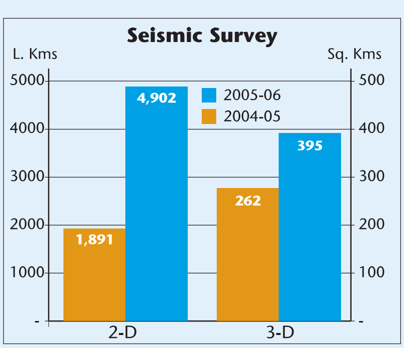
FINANCIAL HIGHLIGHTS

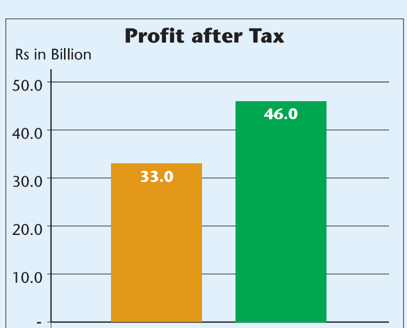
- Sales revenue increased by 31% to Rs 96.8 billion (2004-05: Rs 73.7 billion).
- Net realized prices of crude oil and gas averaged US$ 50.78 / bbl and Rs 153 / Mcf respectively (2004-05: US$ 36.50 / bbl and Rs 124 / Mcf).
- Profit before tax rose by 34% and profit after tax by 39% to Rs 65.9 billion and Rs 46.0 billion respectively (2004-05: Rs 49.0 billion and Rs 33.0 billion).
- Earnings per share increased to Rs 10.69 (2004-05: Rs 7.67 per share).
- Dividend increased to Rs 9.00 per share (2004-05: Rs 7.50 per share).
- Net cash flow from operating activities including working capital changes increased by 10% to Rs 43.0 billion from Rs 39.2 billion in the previous year.
- Total assets increased to Rs 121.3 billion from Rs 114.6 billion.
- Contribution to national exchequer increased to Rs 79.5 billion (2004-05: Rs 61.0 billion).

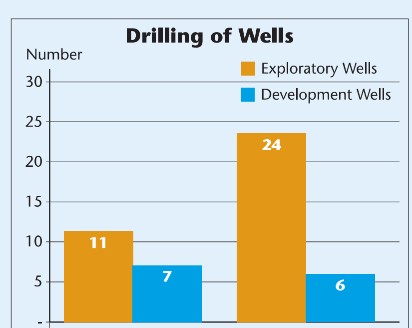












Notice of Annual General Meeting

Notice is hereby given that the 9th Annual General Meeting being Eighteenth meeting of the members of **Oil and Gas Development Company Limited** will Insha Allah be held at registered office of the Company, OGDCL House, Plot No: 3, F-6/G-6, Blue Area, Jinnah Avenue, Islamabad on Friday, September 29, 2006 at 10.00 a.m. to transact the following business:

ORDINARY BUSINESS

1) To confirm the minutes of the 8th Annual General Meeting held on Wednesday, October 26, 2005.

2) To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2006 together with the Directors' and Auditors' Reports thereon.

3) To approve the final cash dividend @37.50% i.e. Rs 3.75 per share for the year ended June 30, 2006 as recommended by the Board of Directors. This is in addition of three interim cash dividends totaling to 52.50 % i.e. Rs 5.25 per share already paid during the year.

4) To appoint Auditors for the year 2006-07 and fix their remuneration.

5) To transact any other business with the permission of the Chair.

By order of the Board

Islamabad
August 17, 2006

(Basharat A. Mirza)
GM/Company Secretary

NOTES:

1. Participation in the Annual General Meeting

A member entitled to attend and vote at this meeting is entitled to appoint another person as his / her proxy to attend and vote. Proxies in order to be effective must be received at the Registered Office of the Company duly stamped and signed not less than 48 hours before the meeting.

2. CDC Account holders will further have to follow the under mentioned guidelines as laid down in Circular 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan:

a. For attending the meeting

In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per CDC regulations, shall authenticate their identity by showing their original Computerized National Identity Cards (CNICs) or original passports at the time to attending the meeting.

In the case of corporate entities, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

b. For appointing proxies

i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per CDC regulations, shall submit the proxy form as per the above requirement.

ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

iii) Attested copies for CNICs or the passports of the beneficial owners and of the proxy shall be furnished with the proxy form.

iv) The proxies shall produce their original CNICs or original passports at the time of the meeting.

v) In the case of a corporate entities, the Board of Directors' resolution / power of attorney with specimen signature of the person nominated to represent and vote on behalf of the corporate entity shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

3. Closure of Share Transfer Books

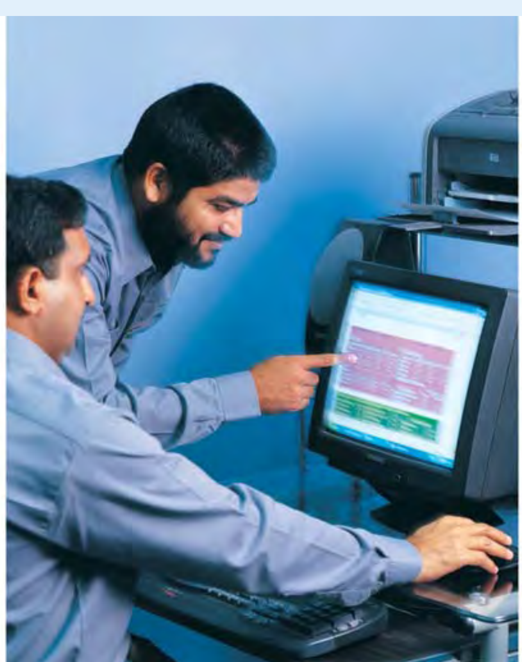
The share transfer books of the Company will remain closed and no transfer of shares will be accepted for registration from September 22, 2006 to September 29, 2006 (both days inclusive). Transfers received in order at the Share Registrar's office by the close of business on Thursday, September 21, 2006 will be treated in time for the purpose of payment of final cash dividend, if approved by the Shareholders.

4. Change in Address

Members are requested to promptly notify any change in their address.

CORE VALUES

- Merit
- Integrity
- Teamwork
- Safety
- Dedication
- Innovation


GOALS

Financial

- To reduce cost and time over runs to improve financial results.
- To maximize profits by investing surplus funds in profitable avenues.
- To make investment decisions by ranking projects on the basis of best economic indicators.
- Growth and superior return to all stakeholders.
- Double the value of the Company in next five years.

Learning and Growth

- Motivate and train our workforce, revitalize our equipment base and attain full autonomy in financial and decision making matters.
- To enhance the technical and commercial skills through modern HR management practices.
- Continuously develop technical and managerial skills at all levels and stay abreast of latest technological developments in the industry.
- Utilization of best blend of latest technologies and high performing human resources.

Customer

- Improve the quality of service to make it faster and more transparent.
- Quality, dependability, responsible corporate citizen.
- Reliable and efficient company.
- To provide most reliable supplies to the customers through cost effective means.

Internal Process

- To set up task forces with representation from all relevant departments to improve internal business decision making and strategic planning.
- Excel in exploration, development, and commercialization.
- Availability of updated information to the shareholders and customers.
- To use most effective business practices and formulate a framework of synergic organization with the change in culture.

Statement of Ethics and Business Practices (SE&BP)

Oil & Gas Development Company Limited conducts its operations in accordance with highest business ethical consideration complying with all statutory regulations and best accepted standards of good corporate citizen. This policy applies to all directors and employees of the Company. The Company's core values are Merit, Integrity, Teamwork, Safety, Dedication and Innovation. It is towards the end of fostering these core values in the Corporate culture of OGDCL that the Company has adopted this Code of Ethics and Business Practices (the Code).

The Code implies as follows:

1. The directors and employees of the Company seek to protect the Company's assets. The Company's assets and services are used solely for legitimate business purposes of the Company. The use of Company's funds for political contributions to any organization or to any candidate for public office is prohibited.

2. The directors and employees adhere in letter and spirit to all laws and conform to the accepted standards of good corporate governance and avoid conflict of interest. The conflict of interest, if any must be notified to the Company in writing immediately.

3. The Company respects the interests of all the stakeholders and enters into transparent and fairly negotiated contracts.

4. The Company is an equal opportunity employer.

5. The directors and employees reject corruption in all forms – direct, indirect, public or private and do not directly or indirectly engage in bribery, kick-backs, payoffs, or any other corrupt business practices.

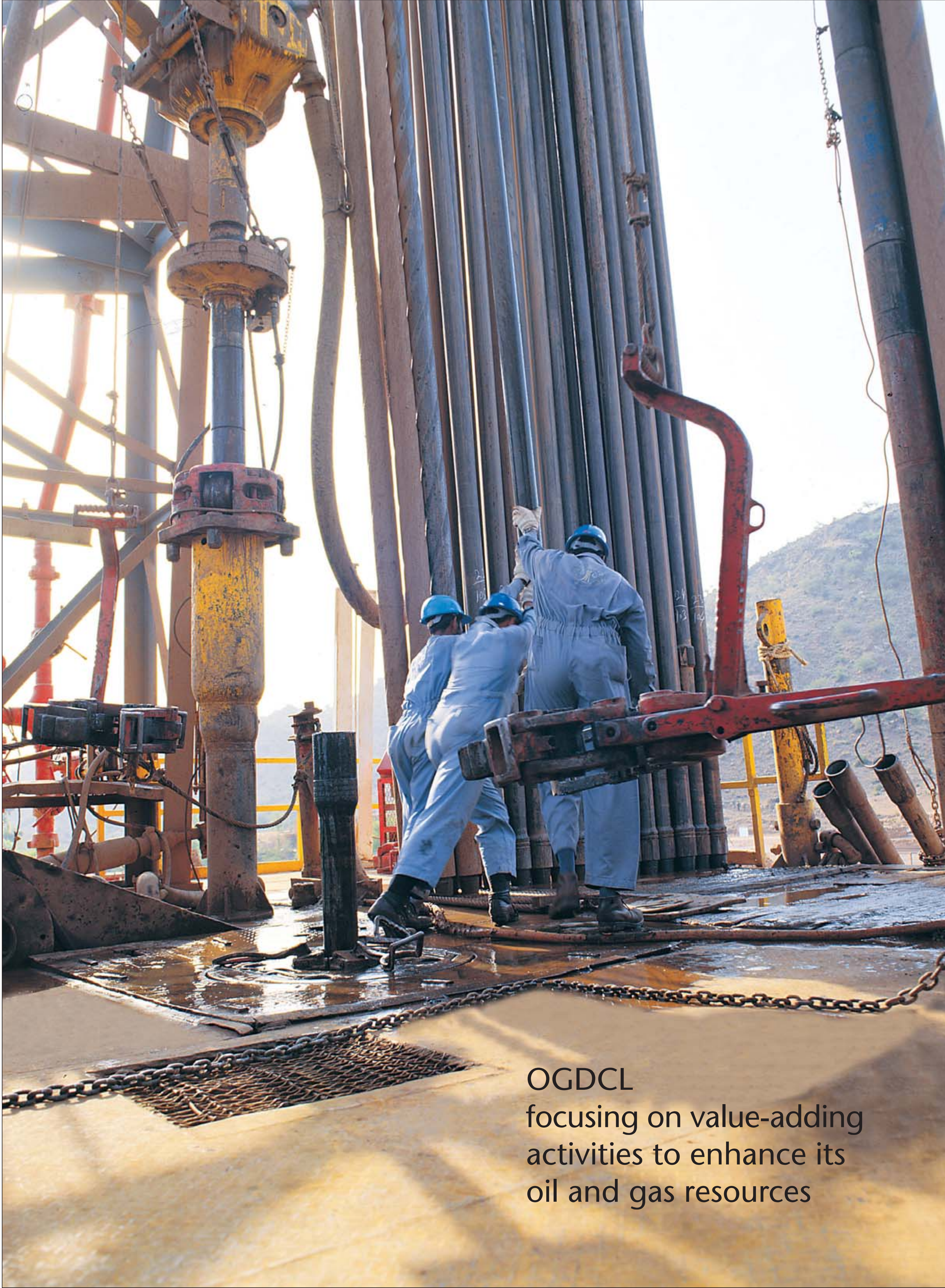
6. Oil & Gas Development Company Limited respects the privacy of data relating to individual persons (whether employees or third parties) which it may hold or handle as part of its information processing activities or otherwise. Employees maintain confidentiality of the Company's and its customers' confidential information which is disclosed to them.

7. The directors and employees shall not place themselves in a position where their loyalty to the Company becomes divided for any reason including their direct or indirect financial interest in a competitor, supplier, consultant or customer.

8. The directors and employees may not take advantage of the Company's information or property, or their position with the Company, to develop inappropriate personal gains or opportunities. They may, however, receive gifts of token value or accept invitations only if such gifts or invitations have no influence on their decision making and are as per Company policy.

9. Employees may offer tips, gratuity or hospitality of a customary amount or value for routine services or courtesies received as per Company policy.

   All directors and employees of Oil & Gas Development Company and its subsidiaries are responsible for the continuing enforcement of and compliance with this policy, including necessary distribution to ensure-employee knowledge and compliance. Non-compliance with this policy will result in disciplinary action.



OGDCL
focusing on value-adding activities to enhance its oil and gas resources

Corporate Information

Board of Directors

Mr. Arshad Nasar	Chairman/CEO
Mr. Asif Bajwa	Director
Mr. M. Naeem Malik	Director
Mr. Sikandar Hayat Jamali	Director
Mr. Pervaiz Kausar	Director
Mr. Azam Faruque	Director
Mr. Khalid Rafi	Director
Mr. Asad Umar	Director
Mr. Alman Aslam	Director
Mr. Aslam Khaliq	Director
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	Director

Company Secretary

Mr. Basharat A. Mirza

Auditors

M/s KPMG Taseer Hadi & Co.
Chartered Accountants

M/s M. Yousuf Adil Saleem & Co.
Chartered Accountants

Legal Advisors

M/s Khokhar Law Chambers

Tax Advisors

M/s Khalid Majid Rahman Sarfraz Rahim Iqbal Rafiq,
Chartered Accountants

Bankers

National Bank of Pakistan
Habib Bank Limited
United Bank limited
Askari Commercial Bank Limited
Allied Bank Limited
Citi Bank
Bank Al-Falah Limited
Faysal Bank Limited
Metropolitan Bank Limited
Bank of Punjab
Bank Al-Habib Limited
Standard Chartered Bank
Soneri Bank Limited
Union Bank Limited
PICIC Commercial Bank Limited
Prime Commercial Bank Limited
MCB Bank Limited
ABN Amro Bank
NIB Bank Limited
Saudi Pak Commercial Bank Limited

Registered Office

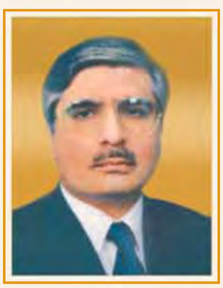
OGDCL House
Plot No. 3, F-6 / G-6, Blue Area,
Jinnah Avenue, Islamabad.
Tel: (PABX) (051) 9209811-8
Fax: (051) 9209804-6, 9209708
Email: info@ogdcl.com
Website: www.ogdcl.com

Registrar

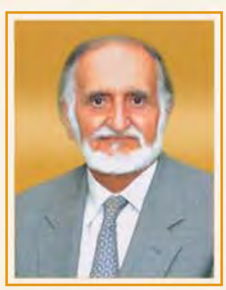
Noble Computer Services (Pvt) Limited
2nd Floor, Sohni Centre,
BS 5 & 6, Main Karimabad
Block 4, Federal B Area,
Karachi. 75950
Tel: (021) 6801880-82 (3 Lines)
Fax: (021) 6801129

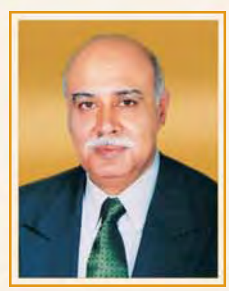
Board of Directors


Arshad Nasar
Chairman / Chief Executive


Asif Bajwa


M. Naeem Malik


Sikandar Hayat Jamali


Pervaiz Kausar


Azam Faruque


Alman Aslam


Khalid Rafi


Asad Umar


Aslam Khaliq


Al-Syed Abdul Qadir
Jamaluddin Al-Gillani

Committees of the Board

AUDIT COMMITTEE

Mr. Khalid Rafi, Director	Chairman
Mr. Asif Bajwa, Director	Member
Mr. Pervaiz Kausar, Director	Member
Mr. Aslam Khaliq, Director	Member
Head of Internal Audit	Secretary

FINANCE COMMITTEE

Mr. Alman Aslam, Director	Chairman
Mr. Arshad Nasar, Chairman/CEO	Member
Mr. Azam Faruque, Director	Member
Mr. Sikandar Hayat Jamali, Director	Member
Al-Syed Abdul Qadir Jamaluddin Al-Gillani, Director	Member
Company Secretary	Secretary

HUMAN RESOURCES COMMITTEE

Mr. Arshad Nasar, Chairman/CEO	Chairman
Mr. M. Naeem Malik, Director	Member
Mr. Asad Umar, Director	Member
Mr. Pervaiz Kausar, Director	Member
Al-Syed Abdul Qadir Jamaluddin Al-Gillani, Director	Member
Company Secretary	Secretary

TECHNICAL COMMITTEE

Mr. Aslam Khaliq, Director	Chairman
Mr. Arshad Nasar, Chairman/CEO	Member
Mr. M. Naeem Malik, Director	Member
Mr. Alman Aslam, Director	Member
Mr. Asad Umar, Director	Member
Mr. Azam Faruque, Director	Member
Mr. Sikandar Hayat Jamali, Director	Member
Company Secretary	Secretary

Company Profile

OGDCL, the Torchbearer for Pakistan's E&P Sector

OGDCL is the largest E&P Company in Pakistan. Listed on all three stock exchanges of the Country, the Company has market capitalization of Rs 588 billion. 95% owned by the Government of Pakistan and rest by the general public, the Company stock has 21% weightage in KSE 100 index.

Strong Human Resource Base

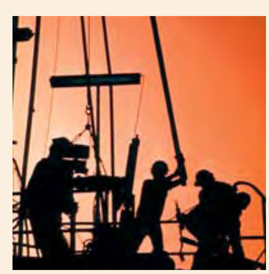
OGDCL was created under an ordinance in 1961, with the responsibility to undertake exploration, development and promotion of oil and gas prospects in Pakistan. Over the years, the Company has grown into a fully integrated E&P business, whose strength lies mainly in its highly qualified professional human resource base - a pool of professionals who can undertake and supervise almost all phases of E&P business from carrying out preliminary geological surveys to operation of integrated oil and gas processing plants.

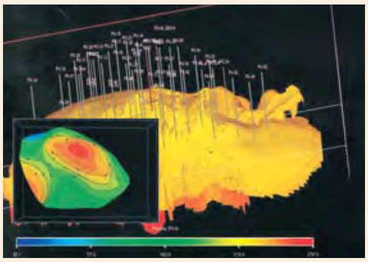
Sound Equipment Base

The Company has a sound equipment and operational base which includes drilling rigs, workover rigs, a geological field party, seismic crews, engineering field crews, gas gathering and pipeline construction unit, seismic data processing centre, geological analysis laboratory, wireline logging unit, cementing units and data logging unit. The Company also operates nine oil and gas processing plants, a mini refinery and LPG and sulphur recovery units.

Concession Portfolio

The Company has interests in total of 40 concessions, 27 of them are 100% owned whereas remaining 13 are operated by OGDCL as joint ventures with other companies.



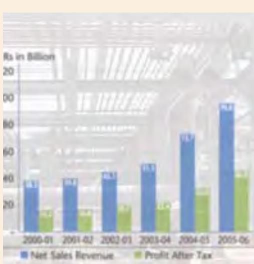


Reserves
Oil 101 MMSTB
GAS 10.2 TCF

The Company holds the largest oil (37%) and gas (32%) reserves in the Country.

Production

Company's share in Country's total oil and gas production stands at 48% and 22% respectively with current production level of 40,000 BBL oil and 950 MMCF gas per day.



Financial Outlook - Year ended June 30, 2006

OGDCL's financial position has been consistently improving over the last many years.

- Sales revenue: Rs 96.8 billion (2004-05: Rs 73.7 billion) - 31% increase.
- Profit after tax: Rs 46.0 billion (2004-05: Rs 33.0 billion) - 39% increase.
- Earnings per share (EPS) Rs 10.69 (2004-05: Rs 7.67) - 39% increase.
- Balance Sheet of the Company remained strong with total assets increasing to Rs 121.3 billion.

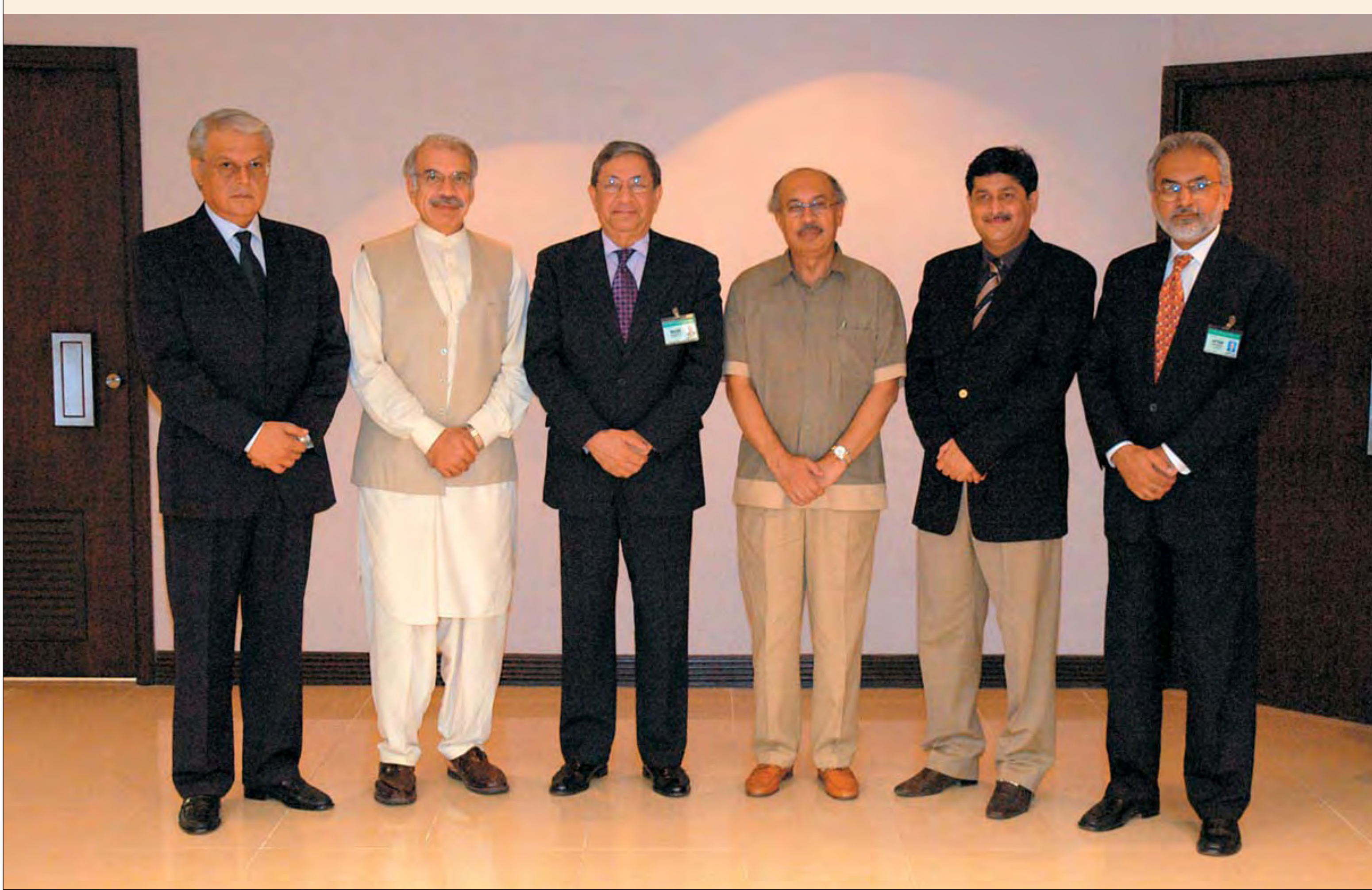
Growth Strategy

The Company is following an aggressive growth strategy. On exploration front it holds the exploration acreage totaling 75,905 Sq.kms, which is the largest acreage held by any single company in Pakistan. The Company plans to drill more than 40 wells during the year 2006-07.

Besides having aggressive E&P plans within the Country to expand its indigenous production base, the Company is actively seeking E&P opportunities internationally.

Senior Management Team

Mr. Arshad Nasar	Chairman / CEO
Mr. Mobassher A. Zafar	Executive Director (Administration)
Mr. Najam K. Hyder	Executive Director (Corporate Affairs / Joint Venture)
Mr. Aftab Ahmad	Executive Director (Finance)
Mr. Tahir Azizuddin	Executive Director (Petroserv)
Mr. Shahzad Saddan	Executive Director (Human Resources)



Mr. Khalid Jamil Khan
General Manager (Accounts)

Mr. Muhammad Rafi
General Manager (Finance)

Mr. Muhammad Amin Mukaty
General Manager (Treasury)

Mr. Basharat A. Mirza
General Manager / Company Secretary

Mr. Sajjad Ahmed
General Manager
(Civil & Engineering Support Services)

Mr. Afzal Chaudhry
General Manager
(Petroleum Research & Training Inst.)

Mr. M. Zafar Chaudhry
General Manager (Projects)

Dr. Fawad Rauf
General Manager (System Support)

Syed Khalid Hussain
General Manager (Drilling)

Mr. Sajid Bashir Khawaja
General Manager
(Supply Chain Management)

Brig (Retd) M.A. Asif Sirhindi
General Manager (Administration)

Mr. Muhammad Anas Qureshi
Acting General Manager
(Production)

Mr. Tariq Jaswal
Acting General Manager (Exploration)

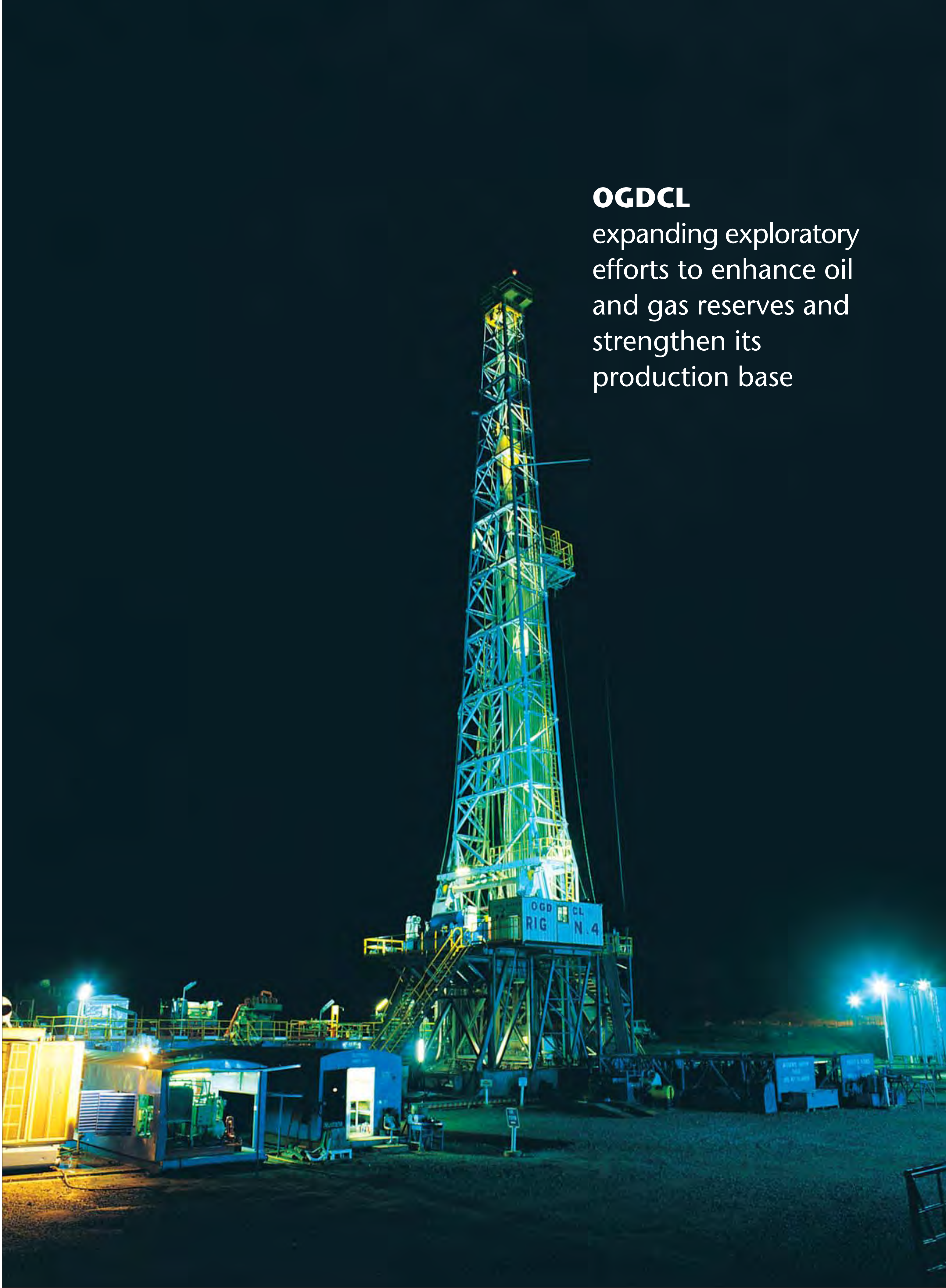
Mr. Muhammad Riaz Khan
Acting General Manager (Plant & Process)

Exploration Licenses

Held by OGDCL as on June 30, 2006

SR. NO.	BLOCKS	DISTRICTS / PROVINCE	AREA SQ. KM	DATE OF GRANT
		OGDCL 100% OWNED CONCESSIONS		
1.	Dhudial	Chakwal, Rawalpindi, Punjab	313.53	08.11.03
2.	Fateh Jang	Islamabad, Rawalpindi, Attock, Punjab	2,136.46	05.11.02
3.	Indus Delta-A	Offshore Area	2,499.01	23.10.04
4.	Jandaran	Loralai, Barkhan & Kohlu Agency, Balochistan	408.00	20.09.89
5.	Rachna	Layyah, Jhang,Tobatek Singh, Khanewal & Muzaffar Garh	2,436.47	08.11.03
6.	Saruna	Khuzdar, Lasbella, Balochistan	2,431.62	17.02.04
7.	Shahana	Kharan & Panjgur, Balochistan	2,445.06	29.12.04
8.	Bagh	Jhang & Tobatek Singh, Punjab	1,036.51	29.12.04
9.	Multan North	Layyah, Jhang, Khanewal, Multan, Muzaffar Garh, Punjab	2,498.97	11.02.05
10.	Multan South	Khanewal, Vihari, Lodhran, Multan, Punjab	2,480.78	11.02.05
11.	Indus -G	Offshore Area	7,466.02	01.01.05
12.	Dhok Sultan	Attock, Rawalpindi, Mianwali & Kohat, Punjab/NWFP	703.23	06.07.05
13.	Samandar	Awaran & Uthal, Balochistan	2,495.33	06.07.05
14.	Bagh-o-bahar	Rahim Yar Khan & Bahawalpur, Punjab	2,499.13	20.09.05
15.	Thatta	Thatta, Sindh	2,438.85	20.09.05
16.	Bagh South	Jhang,Tobatek Singh,Khanewal,Sahiwal & Vihari, Punjab	2,497.05	24.10.05
17.	Thatta East	Thatta, Sindh	2,459.39	24.10.05
18.	Khiranwala	Bahawalpur & Rahim Yar Khan, Punjab	2,497.35	24.10.05
19.	Pakhiwala	Rahim Yar Khan, Punjab	2,495.29	24.10.05
20.	Latamber	Waziristan Agency, Karak & Banuu, NWFP	331.47	24.10.05
21.	Tigani	Shikarpur, Jacobabad & Sukkur, Sindh	270.60	13.02.06
22.	Thano Beg	Lasbela, Dadu & Karachi, Sindh	2,404.73	13.02.06
23.	Thal	Khairpur, Sukkur & Ghotki, Sindh	1,622.67	13.02.06
24.	Chakral	Chakwal & Rawalpindi, Punjab	302.32	31.05.06
25.	Wali	North & South Waziristan Agencies, Bannu & Lakki Marwat,NWFP	2,179.26	31.05.06
26.	Mianwali	Mianwali, Chakwal & Khushab, Punjab	2,280.91	31.05.06
27.	Soghri	Kohat & Attock, NWFP/Punjab	588.09	31.05.06
			54,218.10	
		OGDCL OPERATED JOINT VENTURE CONCESSIONS (OGDCL 95% and Govt. Holdings 5%)		
1.	Bitrisim	Nawabshah & Khairpur, Sindh	1,819.72	27.09.97
2.	Khewari	Khairpur & Nawabshah, Sindh	1,276.40	29.12.99
3.	Nim	Tharparkar & Hyderabad, Sindh	295.03	23.11.04
4.	T. A.Yar	Hyderabad, Sindh	403.34	27.09.97
5.	Zin	Mari Baugti, Nasirabad & Kachhi, Balochistan	5,559.74	15.08.99
			9,354.23	
		OGDCL OPERATED JOINT VENTURE CONCESSIONS (with other E & P companies)		
1.	Gurgalot	Kohat & Attock, Punjab	385.84	28.06.00
2.	Kotra	Khuzdar & Kachhi, Balochistan	663.92	16.12.00
3.	Nashpa	Attock, Mianwali, Kohat, Karak & N.W. Agency, NWFP	979.69	16.04.02
4.	Sinjhoro	Sanghar & Khairpur, Sindh	1,283.43	29.12.99
5.	Zamurdan	D.G.Khan & Rajanpur, Punjab	2,080.58	17.02.04
6.	Kalchas	Kohlu, Dera Bugti & D.G. Khan, Balochistan,Punjab	2,068.32	29.12.04
7.	Kohlu	Kohlu, Dera Bugti & Barkan, Balochistan	2,459.11	29.12.04
8.	Dhermund	Attock, Chakwal, Khushab & Mianwali, Punjab	2,412.23	15.07.05
			12,333.12	

OGDCL
expanding exploratory efforts to enhance oil and gas reserves and strengthen its production base



Ten Years at a Glance

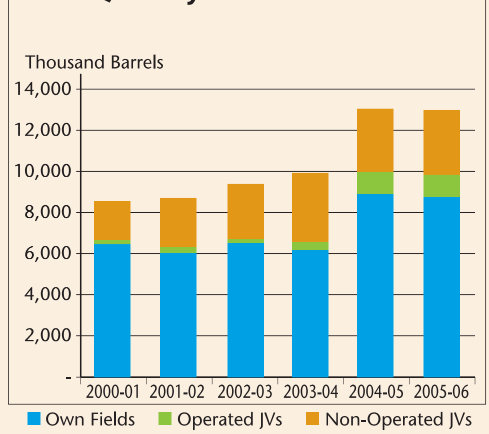
		1996-97	1997-98	1998-99	1999-00	2000-01	2001-02
Operational Performance							
Seismic Survey - 2D	L. Kms	1,673	1,710	2,730	1,884	1,258	2,395
- 3D	Sq. Kms	-	-	-	-	-	-
Exploratory & Development Wells Drilled	Numbers	14	13	9	9	5	10
Oil & Gas Discoveries	Numbers	-	3	-	1	-	2
Quantity Sold							
Crude Oil	Thousand BBL	8,209	7,924	8,074	8,907	8,535	8,705
Gas	MMcf	125,356	124,363	115,967	161,534	217,927	245,537
LPG	M.Tons	76,342	85,780	90,425	93,004	77,402	93,136
Sulphur	M.Tons	12,811	15,640	29,880	13,445	16,670	23,234
White Petroleum Products	Thousand BBL	897	969	1,000	1,038	998	989
Financial Results							
Net Sales	Rs in billion	16.32	16.22	14.23	25.30	38.30	39.81
Other Revenues		0.92	0.61	0.60	0.91	1.60	2.04
Profit Before Tax		8.23	7.43	4.77	12.95	23.23	25.69
Profit After Tax		6.14	4.48	4.55	10.56	16.50	16.77
Dividend Declared		-	-	1.08	2.15	6.67	10.75
Balance Sheet							
Share Capital	Rs in billion	10.75	10.75	10.75	10.75	10.75	10.75
Reserves		14.62	19.20	22.68	31.08	40.92	46.94
Non Current Liabilities		10.77	10.99	10.24	9.53	5.12	10.51
Current Liabilities		10.38	14.34	10.81	7.85	10.97	7.14
Total Equity & Liabilities		**46.52**	**55.27**	**54.49**	**59.22**	**67.76**	**75.34**
Property, Plant and Equipment		15.30	18.57	19.12	18.24	17.10	17.85
Exploration, Evaluation, Development & Production Assets		9.02	9.24	9.40	9.92	10.67	15.77
Stores Held for Capital Expenditure		-	0.79	1.03	0.90	0.99	0.95
Long Term Investments, Loans, Receivables & Prepayments		0.84	0.79	0.82	0.86	0.88	4.09
Current Assets		21.36	25.89	24.13	29.29	38.12	36.68
Total Assets		**46.52**	**55.27**	**54.49**	**59.22**	**67.76**	**75.34**
Key Indicators							
Earnings per Share (EPS)	Rupees	-	1.04	1.06	2.45	3.84	3.90
Operating Profit Margin	%	45%	42%	29%	48%	56%	59%
Net Profit Margin	%	38%	28%	32%	42%	43%	42%
Current Ratio	Times	2.06	1.81	2.23	3.73	3.48	5.14
Quick Ratio	Times	1.45	1.32	1.58	2.94	2.94	4.24
Debtor Turnover Ratio	Times	2.66	1.49	1.24	2.60	3.07	2.84
Total Assets Turnover Ratio	%	41%	32%	26%	44%	60%	56%
Return on Average Capital Employed*	%	24%	16%	15%	26%	34%	31%
Return on Assets	%	15%	9%	8%	19%	26%	23%
Break-up Value per Share	Rupees	-	6.96	7.77	9.73	12.01	13.41
Market Price per Share - As on June 30	Rupees	-	-	-	-	-	-
Price Earning Ratio	Times	-	-	-	-	-	-
Dividend per Share	Rupees	-	-	0.25	0.50	1.55	2.50
Dividend Pay out Ratio	%	-	-	24%	20%	40%	64%
Dividend Yield Ratio	%	-	-	-	-	-	-
Contribution to National Exchequer	Rs in billion	6.20	4.60	9.01	16.19	25.81	32.99

Note: Dividend per Share, Earnings per Share and Break-up Value for previous years have been adjusted after taking into account issue of bonus shares and listing of the Company on Stock Exchanges in October 2003.

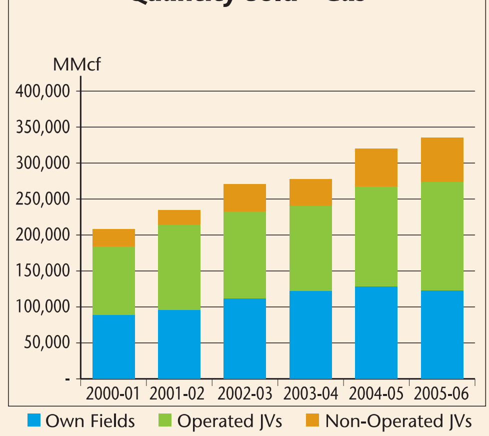
* Return on Average Capital Employed worked out by taking into account "Net Profit after tax divided by Average Capital Employed." (Average Capital Employed = Average Equity + Average Long Term Loans)

2002-03	2003-04	2004-05	2005-06
2,502	2,060	1,891	4,902
-	148	262	395
17	17	18	30
6	2	3	5
9,413	9,941	13,045	12,956
274,006	277,408	329,385	336,059
90,304	101,322	120,063	128,654
15,889	18,917	25,884	22,006
859	890	885	959
45.07	51.33	73.71	96.76
1.99	1.31	2.28	4.25
26.42	30.52	49.02	65.91
20.67	22.41	32.97	45.97
12.90	17.20	32.26	38.71
10.75	43.01	43.01	43.01
54.71	33.04	40.20	51.76
13.01	15.58	17.84	15.65
6.46	4.36	13.53	10.89
84.92	**95.99**	**114.58**	**121.31**
19.27	19.24	19.69	19.58
17.40	19.74	22.76	24.20
0.87	0.74	0.80	0.68
3.35	3.18	4.22	4.18
44.04	53.09	67.11	72.68
84.92	**95.99**	**114.58**	**121.31**
4.81	5.21	7.67	10.69
54%	57%	63%	64%
46%	44%	45%	48%
6.82	12.17	4.96	6.67
5.88	10.32	4.40	5.49
3.46	3.92	4.65	4.50
56%	57%	70%	82%
34%	33%	41%	52%
26%	25%	31%	39%
15.22	17.68	19.35	22.03
-	64.50	105.30	136.75
-	12.38	13.73	12.79
3.00	4.00	7.50	9.00
62%	77%	98%	84%
-	6%	7%	7%
34.66	38.89	61.03	79.46

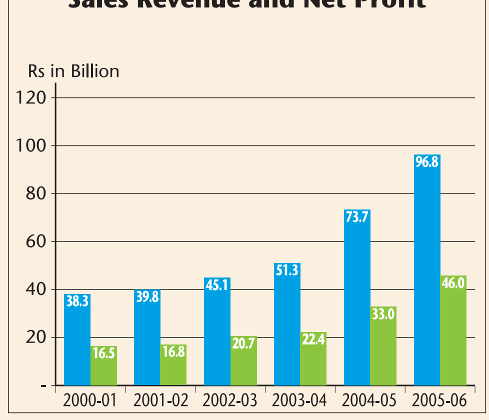
Quantity Sold - Crude Oil

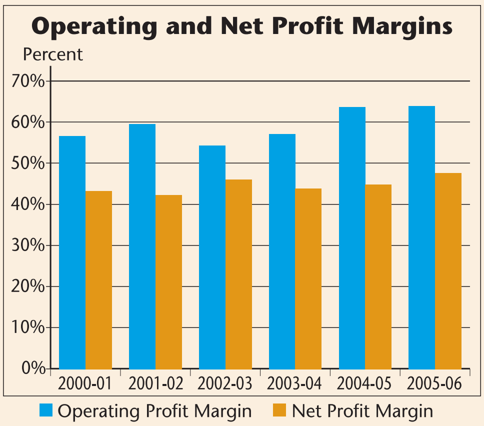


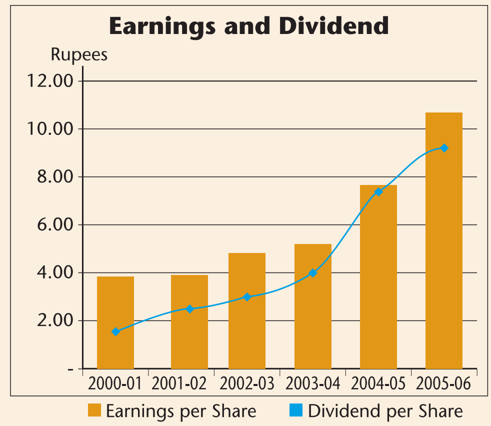
Quantity Sold - Gas

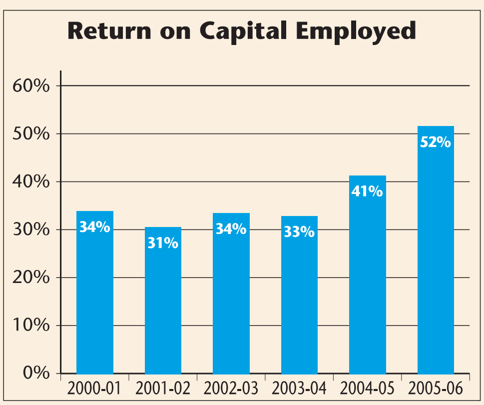


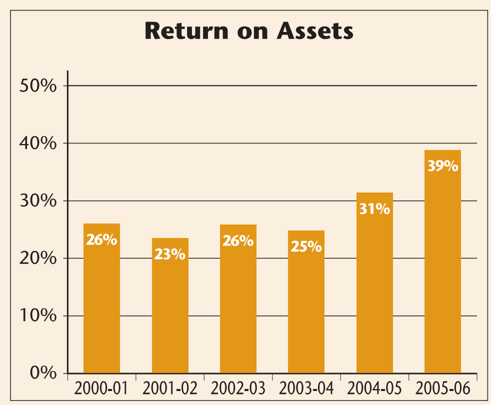
Sales Revenue and Net Profit

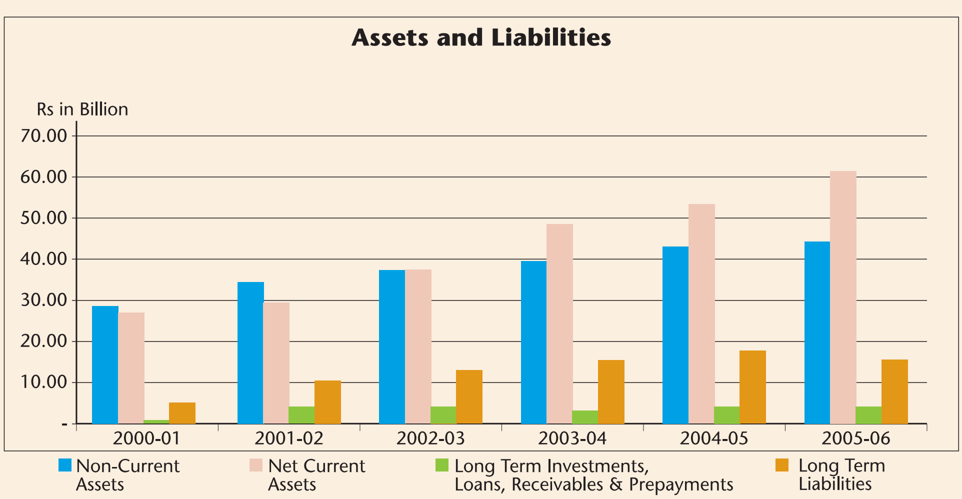



Operating and Net Profit Margins
Percent
70%
60%
50%
40%
30%
20%
10%
0%
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
Operating Profit Margin
Net Profit Margin


Earnings and Dividend
Rupees
12.00
10.00
8.00
6.00
4.00
2.00
-
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
Earnings per Share
Dividend per Share


Return on Capital Employed
60%
50%
40%
30%
20%
10%
0%
34%
31%
34%
33%
41%
52%
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06


Return on Assets
50%
40%
30%
20%
10%
0%
26%
23%
26%
25%
31%
39%
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06


Assets and Liabilities
Rs in Billion
70.00
60.00
50.00
40.00
30.00
20.00
10.00
-
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
Non-Current Assets
Net Current Assets
Long Term Investments, Loans, Receivables & Prepayments
Long Term Liabilities

Working for a Better Tomorrow

Directors' Report

The Board of Directors take great pleasure in presenting the Annual Report and the audited financial statements of Oil and Gas Development Company Limited (OGDCL) for the year ended June 30, 2006 together with Auditors' Report thereon.

The year under review has been a very successful year giving further strength to OGDCL's position in the E&P sector in Pakistan.

The year 2005-06 is significant for a number of reasons which include milestone achievements in seismic acquisitions and drilling of wells. 2-D seismic acquisition which surpassed budget targets and the Company achieved 100% targets in drilling by spudding 30 wells including 24 exploratory / appraisal and 6 development wells.

During the year, the Company made 5 oil and gas discoveries at Nim-1, Dars Deep-1, Tando Allah Yar North-1, Kunnar Deep-1 and Bahu-1. Reserves evaluation of these discoveries is in process and considerable enhancement in oil and gas reserves is expected from these discoveries. Upon completion of development work at these newly discovered fields, OGDCL anticipates addition in daily production of crude oil and gas by 2,100 barrels and 40 MMcf respectively.

Company's daily production including share from joint ventures averaged 39,659 barrels of oil, 937 MMcf of gas and 358 M.Tons of LPG. These figures are higher compared with previous year despite suspension of gas production since February 2006 from Loti and Pirkoh gas fields. Successful drilling of development wells namely Lashari Centre-5, Sono-7, Chanda-2, Qadirpur 27 & 28 and workover operations at various producing wells during the year has further consolidated the oil and gas production base. Crude oil production from Lashari Centre-5 and Sono-7 started in the later part of the year and Chanda-2 has been brought into production in July 2006. Qadirpur 27 and 28 declared as gas producer are yet to be hooked to the system.

"The year 2005-06 is significant for a number of reasons which include milestone achievements in seismic acquisitions and drilling of wells. 2-D seismic acquisition which surpassed budget targets and the Company achieved 100% targets in drilling by spudding 30 wells including 24 exploratory / appraisal and 6 development wells."

The Company continued with its strategies of accelerating oil and gas exploration, adding to its reserves, early development of newly discovered fields and strengthening of its oil and gas production base in order to enhance indigenous production of the Country and create value for its shareholders. To ensure smooth execution of its strategies, the Company is focusing on and strengthening core E&P functions by incorporating international best practices. The management of the Company is currently conducting a review of existing policies, procedures to further improve and develop strong business processes and internal checks in all its operations to ensure financial discipline, transparency and accountability across the board. Efforts are also being made for rationalization of human resources and policies, formulation and implementation of an integrated management system governing health, safety, environment and quality issues based on the international best practices and improving decision making process at all levels by employing top of the line information technology.

OGDCL is currently on the organizational turnaround path under a forward looking management that foresees the organization not only to remain the leading E & P Company of the Country but also to have a recognised position in the region. The Company has now positioned itself for international scrutiny and due diligence for listing on the London Stock Exchange and is extending full support for timely implementation of the same. Focal points have been designated and we are working in close coordination with Messer Citigroup who has been appointed as Financial Advisor and a consortium of companies who are handling the transaction.

Another significance of the year is the development of OGDCL's first-ever Strategic and Business Plan which, apart from quantifying physical and financial goals and objectives, defines the strategic intent of the Company for the next five years (2006-07 to 2010-11). Strategic Plan has been prepared realizing that the Company has the potential to significantly increase its net worth. The plan presents a broad framework relating to Company's vision, mission, values and goals and sets out its proposed strategies. Major objectives of the strategic plan are to determine the strategic intents of the Company, provide direction and guidance to all concerned in the Company in preparation of budgets and operating plans, and provides a single perspective for OGDCL's future communication with stakeholders.

On the business development side, measured steps are being taken to enhance OGDCL's business canvas. OGDCL will avail opportunities to acquire overseas acreage by buying stakes in existing viable producing fields. OGDCL is also looking into the possibilities of E & P opportunities and Joint Venture collaboration outside Pakistan, which will include swap of assets for reserves acquisition in international market.

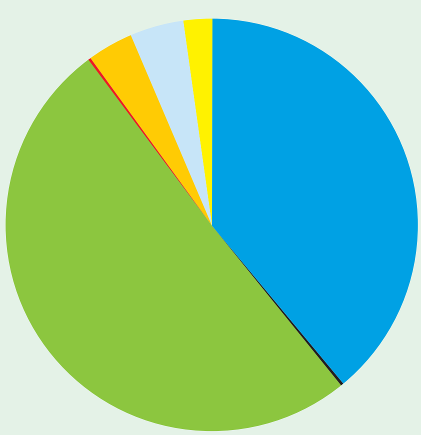
Excellence Award

We are pleased to inform that OGDCL has been declared by Karachi Stock Exchange (KSE) as winner of KSE "Top 25 Companies Award for the year 2004". Our Company has been selected for the award on the basis of meeting the pre-requisites laid-down by the KSE Board for the listed companies and marks obtained on the basis of distribution of profits, return on equity, turnover of shares and good corporate governance.

Financial Results

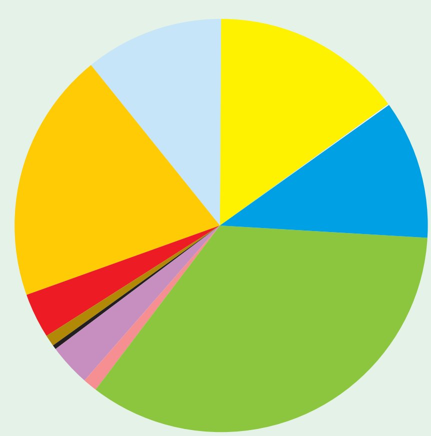
The year under review proved to be an excellent year for the Company in the backdrop of a sustained period of strong crude oil and gas prices. Sales revenue of the Company increased by 31% to Rs 96.8 billion from Rs 73.7 billion in the previous year with higher realized prices and sustained sales volume. Net realized prices of crude oil and gas averaged US$ 50.78 / bbl and Rs 153 /Mcf respectively compared with realization of US$ 36.50 / bbl and Rs 124 / Mcf during previous year. Other income of the Company increased by 86% to Rs 4,248 million. This increase is largely contributed by increase in interest rates on short term deposits and effective liquidity management by the Company. Increase in profit before tax by 34% and profit after tax by 39% to Rs 65.9 billion and Rs 46.0 billion respectively indicate effective financial management despite higher exploration write off on account of increased exploration activities. Operational efficiencies and financial discipline have enabled the Company to ensure strict cost control and higher profitability which is reflected in higher figures of operating profit margin (64%), net profit margins (48%), return on assets (39%) and return on equity (52%).

Higher revenue and profitability during the year resulted in increased earnings per share from Rs 7.67 to Rs 10.69. Net cash flow from operating activities including working capital changes increased by 10% to Rs 43.0 billion from Rs 39.2 billion in the previous year. Balance sheet of the Company remained strong with total assets increasing to Rs 121.3 billion.



Sources of Net Income
2005-06

Gas	50.85%
Crude Oil	39.07%
White Products	3.40%
LPG	2.26%
Sulphur	0.17%
Other Operating Revenue	0.04%
Other Income	4.21%
Total Rs 101.0 Billion	



Utilization of Net Income
2005-06

Royalty	10.76%
Operating Expenses	14.91%
Transportation Charges	0.93%
Exploration Expenses	3.64%
G & A Expenses	1.06%
WPPF	3.43%
Corporate Tax	19.75%
Dividend	34.08%
Capital Reserve	0.22%
Retained Profit	11.22%
Total Rs 101.0 Billion	

Financial results for the year ended June 30, 2006 are summarized below:

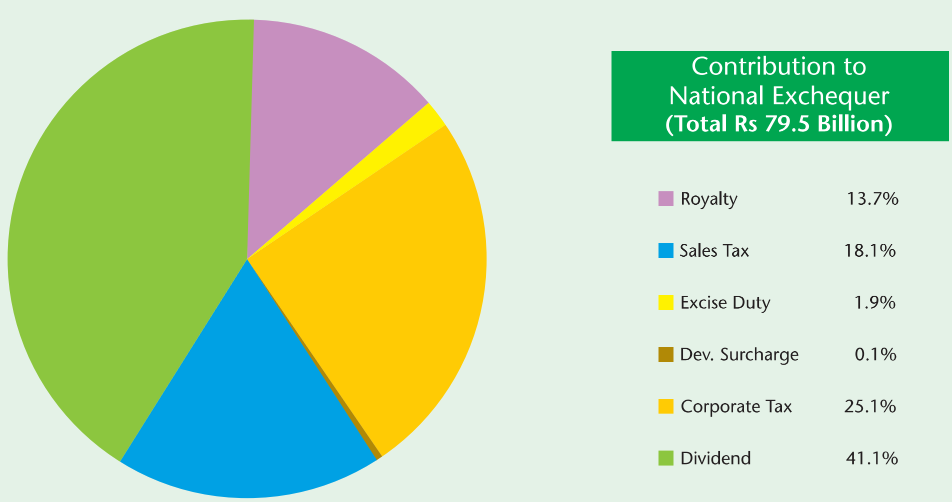
			Rs in Billion
Profit before Taxation			65.911
Provision for Taxation			(19.943)
Profit After Taxation			45.968
Un-appropriated profit brought forward			38.205
Profit available for appropriations			84.173
Appropriations:			
Transfer to Capital Reserve		(0.223)	(0.223)
Distribution through Dividends:			
Final Dividend 2004-05	@ Rs 2.75 per share (27.50%)	(11.828)	
First Interim Dividend 2005-06	@ Rs 1.25 per share (12.50%)	(5.376)	
Second Interim Dividend 2005-06	@ Rs 1.75 per share (17.50%)	(7.527)	
Third Interim Dividend 2005-06	@ Rs 2.25 per share (22.50%)	(9.677)	(34.408)
Un-appropriated profit carried forward			49.542

Dividend

The Board of Directors has recommended a final cash dividend at 37.5% (Rs 3.75 per share) in addition to 52.5% (Rs 5.25 per share) interim cash dividends declared earlier during the year on the basis of interim results. This makes a total of 90.0% (Rs 9.00 per share) for the year ended June 30, 2006. The dividend declared is subject to the approval by the share holders in Annual General Meeting.

Contribution to National Exchequer

The Company's contribution to the national exchequer in the form of corporate tax, sales tax, royalty, development surcharge and dividend amounts to over 79.5 billion (2004-05: Rs 61.0 billion). This is in addition to considerable savings in foreign exchange achieved during the year through import substitution.



Exploration and Development

OGDCL is following aggressive growth strategies by maintaining distinct balanced commercial portfolio of exploration blocks in order to hedge risk, expanding exploratory efforts to unexplored and frontier areas, exploring old areas with new ideas and innovations and maintaining committed exploration effort level. These strategies have been reflected in Company's recently approved Strategic Plan for next five years. Aggressive exploration, development and production targets have been set by the Company based upon technical capabilities, financial strength and available opportunities.

On the exploration front, OGDCL holds largest exploration acreage comprising 40 exploration licenses covering an area of 75,905 Sq. Kms including 16 exploration licenses covering an area of 28,066 Sq. Kms granted to the Company during the year. This constitutes 37% of total area granted to all exploration and production companies operating in the Country. The Company's survey and drilling activities are being carried out in all four provinces of the Country. With the situation in Balochistan likely to improve in the near future, the Company is optimistic about making major breakthrough in the province, where presently, exploration and development activities are suspended.

The Company, during the year, carried out 4,902 L. Kms of 2-D (2004-05: 1,891 L. Kms) and 395 Sq. Kms of 3-D (2004-05: 262 Sq. Kms) seismic survey. Total of 30 new exploratory/ appraisal and development wells were spudded during the year including 24 exploratory/ appraisal wells (2004-05: 11 wells) and 6 development wells (2004-05: 7 wells). In addition, workover operation at nineteen wells was also carried out during the year under review.

OGDCL is aiming at development of its current and future projects at an accelerated pace without compromising quality and transparency. Various oil and gas field development projects, including Uch-II Development Project, Tando Allah Yar Development Project, Sinjhoro Development Project, Dhodak Expansion Project, Dakhni Expansion Project, Chanda Development Project, Qadirpur Gas Compression Project and Qadirpur Additional Gas Capacity Enhancement Project are under implementation and will subsequently enhance Company's production level by 8,000-10,000 barrels of oil per day, 350-400 MMcfd of gas, 600 M.Tons per day of LPG and 80 M.Tons per day of Sulphur.

Production

The Company has maintained its status as leading national oil and gas producing Company in the Country and produced 48% of total crude oil and 22% of total gas. Its average daily production including share from joint ventures averaged 39,659 barrels per day of crude oil, 937 MMcf per day of gas and 358 M.Tons per day of LPG compared with 39,130 barrels of crude oil, 919 MMcf of gas and 334 M. Tons of LPG during the previous year.

As part of OGDCL's strategy of enhancing the production base of the Company, development drilling at 5 wells namely Lashari Centre-5, Sono-7, Chanda-2, Qadirpur 27 & 28 and workover operations at nineteen wells has been carried out during the year. Lashari-5 and Sono-7 started producing 3,900 barrels per day of crude oil in the later part of the year and production from Chanda-2 commenced in July 2006 and is currently producing 2,700 barrel of crude oil per day. Qadirpur 27 and 28 declared as gas producer are yet to be injected in the system and will enhance gas production by considerable amount. During the year some major improvements at various producing fields have been achieved which will result in further enhancements of operational efficiencies at the fields.

OGDCL's average daily production including share in joint ventures during the year was as follows:

PRODUCTS		OWN FIELDS & OPERATED JVs	SHARE FROM NON-OPERATED JVs	TOTAL
Crude Oil	Barrels/day	30,873	8,786	39,659
Gas	MMcf/day	708	229	937
LPG	M. Tons/day	289	69	358
Sulphur	M. Tons/day	60	-	60

- Daily production has been worked out at 360 days per annum.
- Excludes gas production from subsidiary company, Pirkoh Gas Company (Pvt.) Limited

Reserves

OGDCL is pursuing the strategy of adding oil and gas reserves through accelerated exploration. An aggressive and accelerated exploration programme is in progress delivering new discoveries. During the year under review, OGDCL struck 5 oil and gas discoveries. OGDCL's remaining recoverable reserves as on June 30, 2006 stood at 101.075 million barrels of crude oil and 10,204.3 billion cubic feet (Bcf) of gas. These constitute 37% of total crude oil and 32 % of gas reserves of the Country. Reserves addition from newly discovered fields has not been accounted for as reserves evaluation of these fields is in process. The Company expects considerable enhancement in oil and gas reserves from newly discovered fields.

Subsidiary Company

Pirkoh Gas Company (Pvt.) Limited (PGCL) is a private limited company incorporated in 1982. The Company is engaged in exploration and development of natural gas resources, including production and sale of natural gas with related activities. The Company is wholly owned subsidiary of OGDCL.

During the year under review subsidiary Company's sales revenue and profit after tax decreased to Rs 577 million and Rs 200 million respectively compared with Rs 1,159 million and Rs 283 million during the previous year. This decline is due to suspension of operational activities at the field after sabotage activities in the area causing damages to the wellheads and production facilities. Operations at the field are in suspension since February 16, 2006. Decrease in sales revenue is partially offset by interest income of the Company which increased to Rs 424 million from Rs 114 million in 2004-05 due to investment of surplus funds in term deposit certificates (TDRs).

Gas production during the period of operations i.e July 2005 to February 2006 averaged 34 MMcfd compared with 46 MMcfd during 2004-05. This decrease is mainly due to natural depletion of the field. Company's plan to enhance productivity of the field also suffered due to prevailing law and order situation in the area. The Company is ready to undertake rehabilitation programme at the field including repair of damaged wellheads and gathering system after improvement in law and order situation in the area. Accordingly, work programme will be implemented as part of efforts to enhance gas production through workovers and installation of new compressors thereby improving the pressure in case of low pressure wells. Drilling of a deep exploratory well has also been planned to explore the probable reserves of the field which will be carried out after security clearance in the area.

Board of Directors

The Board comprises eleven Directors including the Chief Executive Officer (CEO). The present Board was elected in the extra ordinary general meeting held on May 20, 2005 for a term of three years.

The composition of the Board of Directors has changed due to appointment of Mr. Arshad Nasar, Chief Executive Officer in addition to being Chairman of the Company with effect from April 20, 2006. Mr. Mohammad Raziuddin former Managing Director handed over charge on April 20, 2006. Mr. Asif Bajwa has also been appointed as Director of OGDCL in place of Mr. M. Iqbal Awan effective April 10, 2006. We wish to record Board's appreciation for the contribution and services rendered by the outgoing Managing Director, Mr. Mohammad Raziuddin and Director, Mr. M. Iqbal Awan during their tenure. We also extend a warm welcome to Mr. Asif Bajwa on the Company's Board.

The Board presently comprises of the following Directors:

Mr. Arshad Nasar	Chairman/CEO
Mr. Asif Bajwa	Director
Mr. M. Naeem Malik	Director
Mr. Sikander Hayat Jamali	Director
Mr. Pervaiz Kausar	Director
Mr. Azam Faruque	Director
Mr. Khalid Rafi	Director
Mr. Alman Aslam	Director
Mr. Asad Umar	Director
Mr. Aslam Khaliq	Director
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	Director

Meetings of the Board

Eleven meetings of the Board of Directors were held between July 01, 2005 and June 30, 2006 and the attendance of each Director is given below:

Name of Director	Meetings Attended
Mr. Arshad Nasar, (Chairman/CEO)	11
Mr. Asif Bajwa	03
Mr. M. Naeem Malik	09
Mr. Sikander Hayat Jamali	09
Mr. Pervaiz Kausar	10
Mr. Azam Faruque	07
Mr. Khalid Rafi	10
Mr. Asad Umar	08
Mr. Alman Aslam	05
Mr. Aslam Khaliq	08
Al-Syed Abdul Qadir Jamaluddin Al-Gillani	08
Mr. Mohammad Raziuddin, (Former Managing Director)	09
Mr. M. Iqbal Awan (Former Director)	04

Committees of the Board

Audit Committee

The Board of Directors has constituted an Audit Committee comprising four non-executive Directors of the Company as required under the Code of Corporate Governance. The Committee meets at least once every quarter of the year prior to approval of interim results of the Company by the Board of Directors. Additional meetings are held to review and discuss other matters as required under terms of reference or as assigned by the Board.

The Terms of Reference of the Audit Committee have been approved by the Board in compliance with the requirements of the Code of Corporate Governance contained in the listing regulations of the Stock Exchanges and include matters relating to safeguarding assets, monitoring internal audit function, appointment and remuneration of external auditors. It also monitors compliance with applicable accounting and reporting standards / listing rules etc. It is also on the mandate of Audit Committee that the Committee may obtain outside professionals' advice and also recommend to the Board any changes or amendments in Policies, Procedures and System for improvement.

During the year, the Committee held eight meetings which were also attended by the Chief Financial Officer, the Head of Internal Audit and the external auditors at which issues relating to accounts and audit were discussed. During these meetings, the Committee held separate discussions with the internal and external auditors without the Management of the Company being present. The attendance by its members was as follows:

Name of Director	Total No. of Meetings (*)	Meetings attended
Mr. Khalid Rafi (Chairman)	08	08
Mr. Asif Bajwa	05	05
Mr. Pervaiz Kausar	08	08
Mr. Aslam Khaliq	08	06
Mr. M. Iqbal Awan	03	-

* Meetings held during the period concerned Directors were on the Committee

Finance Committee

Finance Committee of the Board consists of five Directors including the CEO. The role of Finance Committee is to review and recommend the financial targets, annual and quarterly budgets, approval of expenditure for amounts exceeding the powers delegated to CEO, Investment of surplus funds of the Company and financial policies and controls including the policies required under the Code of Corporate Governance. During the year, the Committee held four meetings.

Human Resources Committee

Human Resources Committee of the Board consists of five Directors including the Chairman/CEO. The Committee is responsible for approval of appointments/promotions to Executive Group, recommendations for appointment / promotions at senior level providing guidance for CBA agreements, rationalization of the organization, review of compensation package, review of HR policies including the policies required under the code of corporate governance and consider any other issue or matter as may be assigned by the Board of Directors. During the year, the Human Resource Committee held five meetings.

Technical Committee

Technical Committee of the Board comprises of seven Directors including the CEO. The Technical Committee is responsible for approval of exploration licenses and related work programs within budgetary provisions, recommendations for farm-in and farm-out in concessions, recommendations for participation in off-shore and overseas opportunities, review of physical targets and formulation of technical policies required under the Code of Corporate Governance. During the year, the Technical Committee held four meetings.

Management

The Management has been entrusted with ensuring smooth operations of the Company and achieving the objectives of the strategies adopted by the Board and flow of quality and timely information between the Management and the Board to facilitate the decision making process.

The Management operates under authorized limits for procurement of goods and services and has been delegated financial powers for approving transactions. It is also responsible for preparation of budgets, monitoring control and reporting deviations to the Board.

"OGDCL's strategy of growing the production base and focusing on high impact exploration, backed by solid financial position will add significant value for shareholders in the years to come."

Executive Committee

An Executive Committee (EXCOM) comprising nine members from the management including the Chairman / CEO has been constituted during the year. The purpose of formation of the EXCOM is to collaborate to achieve and improve overall performance of the Company, develop and implement approved business plan objectives and strategies, manage issues from OGDCL perspective, identify potential problems and conflicts and work towards expeditious resolution that maximizes value to the Company, monitor investment projects, review expenditures, identify opportunities / projects and implement good governance throughout the Company.

Reporting

The Board places a high priority on complete, true and fair presentation and timely issuing of its periodic financial statements and other financial and non-financial information to the regulatory authorities, the shareholders and other stakeholders of the Company.

Accordingly, periodic financial statements were circulated to the Directors duly endorsed by the Chief Executive Officer and the Chief Financial Officer for approval before publication. Quarterly un-audited financial statements along with Directors' Review were published within one month while half yearly financial statements reviewed by the auditors were circulated within two months of the end of the period. Annual financial statements including consolidated financial statements alongwith auditors' report and other statutory statements and information are being circulated within three months from the close of the financial year in compliance with the listing regulations.

All material information relating to the business and other affairs of the Company including announcement of interim and final results, as specified in the listing regulations which may affect the shares market price were immediately circulated to the Stock Exchanges.

Company's quarterly, half yearly and annual reports are also available on the Company's website www.ogdcl.com.

Auditors

The auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants and M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants have completed their assignment for financial year ended June 30, 2006 and shall retire on the conclusion of Ninth Annual General Meeting. Being eligible for re-appointment under the listing regulations, they have offered their services as auditors of the Company for the financial year 2006-07 and based on Audit Committee's proposal, the Board recommends re-appointment of M/s. KPMG Taseer Hadi & Co., Chartered Accountants and M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants as joint statutory auditors for the year 2006-07.

Corporate Governance

The Company is committed to high standards of corporate governance and the Board of Directors is accountable to the shareholders for good corporate governance. Management is continuing to comply with the provisions of best practices set out in the Code of Corporate Governance particularly with regard to independence of non-executive directors. The Company remains committed to conduct its business in line with Listing Regulations of the Stock Exchanges, which clearly defines the role and responsibilities of Board of Directors and Management. The Board has already approved the Vision, Mission, Core Values and Code of Ethics and business conduct while other policies already prepared are under review of the Board of Directors.

The following specific statements are being given to comply with the requirements of the Code of Corporate Governance:

- The financial statements, prepared by the management, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements. Accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored and is being further improved.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Key operating and financial data of the last 10 years in summarized form is annexed.
- Value of investments including bank deposits of various funds as at June 30, 2005, based on their respective audited accounts, is as under:

- Pension and Gratuity Fund	Rs: 5,791.904 million
- General Provident Fund	Rs: 908.106 million

- All major Government levies in the normal course of business, payable as at June 30, 2006, have been cleared subsequent to the year-end.

"OGDCL remains committed to conduct its business in line with Listing Regulations of the Stock Exchanges, which clearly defines the role and responsibilities of Board of Directors and Management."

Pattern of Shareholdings

The pattern of shareholdings as on June 30, 2006 is annexed.

Consolidated Financial Statements

Consolidated financial statements of the Company and its 100% owned subsidiary namely Pirkoh Gas Company (Pvt.) Limited are annexed.

Funds Management

The Company has been maintaining strong liquidity position over the years. Surplus funds are placed with banks having required criteria fixed by the Board of Directors. These funds are invested on competitive terms by the Management Investment Committee as per the criteria approved by the Board of Directors.

Effective short-term liquidity management has been ensured by negotiating optimum mark-up rates on saving accounts, short-notice time deposits, and term deposits with various banks. The Company is in the process of establishing credit lines with banks which will place it in superior position to manage liquidity without compromising on returns.

Internal Audit and Control

Internal audit is an independent in house function headed by a full time employee of the Company. The Board is responsible for effective implementation of a sound internal control system including compliance with control procedures, safeguarding of assets and risk management which is being implemented at all levels within the Company. The performance of the Internal Audit Department is monitored through Audit Committee of the Board of Directors. The scope of the Department has been defined by the Board as recommended by the Audit Committee and the Department head has access to the Chairman of the Audit Committee. Internal audit reports are regularly furnished to the Audit Committee and also provided to the external auditors for their review.

Insurable Risks Assessment

The Board and Management of the Company are fully cognizant of importance and presence of an efficient Risk Management. For this purpose, the Company has engaged recognized insurance consultants to undertake an independent analysis and evaluation of insurable risks relating to OGDCL's assets. Main components of the consultancy assignment include Risk Tolerance, Risk Engineering/Insurance, Risk Assessment Insurance Policy Review and Insurance Risk Modeling & Optimization including self-insurance funds.

The Consultants commenced the assignment with two Risk Engineering Surveys spread over a period of four weeks. After the surveys and collection of requisite information from OGDCL, they continued the work on the assignment at their Head office, UK. The reports pertaining to Optimum Risk Retention Review, Insurance Policy Review and Insurance Risk Assessment Report have been received and are under review for presentation to the Management.

Human Resource Development

The success of any well-thought out strategy lies in its execution. We are fully aware of the crucial role played by our employees in translating strategies into tangible results. Indeed, the Company's continued growth and accomplishments have much to do with our competent and capable workforce. OGDCL is committed to develop high performing employees. With a growing human resource strength of over 11,000 employees, the Company places great importance in human resource development.

The Company is focusing on the human resource development as it aims to motivate its employees through proper placement, employee recognition, effective appraisals, communication and promoting employees skill development programs. Various human resource policies are being reviewed and rationalized by taking into account the industry norms to bring about an effective change in order to meet the future challenges.

Management's relations with the collective bargaining agent (CBA) remained friendly and industrial peace prevailed at all locations during the year under review. The management successfully concluded an agreement with the CBA for a period of two years from 7th February 2005 to 6th February 2007.

Training

Recognizing the fact that, only through the acquisition of state-of-the-art petroleum technology, OGDCL would be able to fulfill its mandate of achieving energy security in Oil & Gas sector for the Country, a training institute, Oil and Gas Training Institute (OGTI) now renamed as Petroleum Research and Training Institute (PRTI) was established by the Company in 1979. The Institute provides wide range of Upstream Training Programs to meet the training needs of OGDCL and other E&P Companies working in Pakistan. The Institute is imparting education and training in various disciplines in the petroleum sector including Exploration, Drilling Engineering, Mechanical Engineering, Reservoir Engineering, Production Engineering, Process Engineering, Instrumentation & Process Control, Health/Safety & Environment and Petroleum Management.

PRTI provides basic training to the petroleum industry graduates and technicians enabling their career induction, as well as refresher and advanced training to experienced professionals. In pursuance of this mission, PRTI identifies diverse training needs of the Company, evolves progressive and dynamic training programs in coordination/collaboration with the technical departments. PRTI also organizes in-house technology update seminars, inviting outside professionals / expertise, to facilitate absorption of state--of-the-art techniques.

During the year under review, a total of 90 refresher courses were conducted by PRTI for petroleum industry professionals including Technical, Management & HSE courses. About 1,230 professionals from OGDCL and other E&P companies attended these courses.

Health, Safety, Environment and Quality

It is the stated policy of OGDCL to ensure that the impact of its activities on the health and safety of its employees will be reduced to a level that is as low as reasonably practicable, to maintain the security of its personnel and assets and to strive to achieve excellence in environmental standards, the Company commits to protect the health, safety and welfare of all its employees and of all personnel affected by and involved in its activities.

The Health, Safety, Environmental and Security policies provide the basis of the Company's HSEQ management system, which is applied and communicated throughout our operations. The management system comprises a hierarchical structure of policies, standards, guidelines and procedures to ensure that the corporate policies are cascaded throughout the Company's activities, that sufficient resources are made available within the organization to achieve effective implementation, and that performance is monitored and regularly reviewed.

To provide a safe and healthy work place and to be an environment-friendly organisation, OGDCL is carrying out its activities in compliance with the Federal and Local legislation pertaining to HSEQ and the applicable international rules and standards. OGDCL believes that good HSEQ performance contribute to the business success and that Health, Safety and Environment protection is a shared responsibility of the Company.

We are continuously monitoring and reviewing our performance in an effort to learn and improve. Development of our electronic accident reporting system and training of accident investigators provided a solid foundation for improving the reporting culture and identification of root causes and preventative actions. Accident and near miss reports were monitored for trends throughout the year enabling early actions to be taken to enhance performance.

Information Technology

OGDCL has taken many initiatives this year for promoting new technologies in the area of Information Systems to achieve business efficiency. International IT consultants have been engaged for preparing a Strategic IT plan for OGDCL. The plan will cover entire spectrum of IT Governance.

A comprehensive Production Data Management System (PDMS) accompanied by efficient workflows was an inevitable need for production monitoring and enhancement. In 2005, OGDCL took the initiative of starting the very first PDMS Project of its kind in Pakistan. The objective was to implement a reliable system to manage collection, visualization, allocation, transmission and storage of production and operation related data in a single secure and robust database, accessible and visible to all concerned. The system will bring automation in production operations where data will be entered directly from field

locations, validated, reported and back allocated on a regular basis. The PDMS project has been targeted to play a vital role in streamlining OGDCL's operational processes making them efficient and progressive. Till date, a total of 80 engineers from field and head office have been trained on PDMS through various in-house courses. While four fields namely Qadirpur, Dhodak, Dakhni and Bobi have been brought online. In the area of IT Security, necessary network firewall together with a corporate edition of licensed anti-virus software is in place deployed to ensure protection and security of IT resources including Company LAN/WAN.

Corporate Social Responsibility

The Company endeavors to be a responsible corporate citizen of the E&P community. Being fully aware of its social obligations, it continues to proactively promote, develop and maintain medical, social and welfare facilities and schemes for the benefit of the local communities affected by its work and presence. These include employment opportunities for locals, construction of roads, setting up dispensaries and providing free first-aid and health care, establishing schools, granting fellowships and scholarships, supply of drinking water, donation for charitable causes and financial assistance for numerous projects to improve the quality of life of peoples and communities with which it interacts.

The Company, apart from meeting its social welfare obligations under the Petroleum Concession Agreements (PCAs), spends substantial amounts from its own resources to augment and improve facilities for water supply, healthcare, infrastructure and education.

International Best Practices – Benchmarking and Re-engineering of Business Processes

Keeping in line with international best practices, OGDCL, during the year embarked upon an exercise to benchmark itself with international E&P companies. Messer Schlumberger Business Consulting was engaged to carry out an exercise to determine Bench Marks and Key Performance Indicators (KPIs) for all key operational areas in the Company as a performance measuring tools.

As part of restructuring and in order to bring the Company's activities in line with the current norms of the industry, Messer IBM Global Business services has been awarded the project to undertake an exercise to review and re-engineer existing business procedures and processes. Currently, the project is in final stage of plan implementation and after approval of management, the selected processes will be implemented and adopted in the Company.

Future Outlook

The financial year ended June 30, 2006 was indeed an excellent year for OGDCL. The outstanding operating results provided further strength to Company's financial position. The operational achievements of the Company are driven by its strategies of adding oil and gas reserves through accelerating exploration, early development of newly discovered fields and strengthening of oil and gas production base. The Company is committed to its strategies, which has enabled us to evolve and grow into what we are today and has served us well in addressing the challenges and uncertainties faced by volatile E&P industry. We are confident that the Company has enough in-built resilience to weather this volatile industry. The Company recognizes that having right strategies, the right management and the right mindset and attitude is critical in setting the path ahead. We firmly believe that integrity must never be compromised and also believe that both results and the manner in which those results are achieved matter. These fundamental beliefs and values form the backbone of our business approach.

As we move a step closer to realizing our vision "To be the leading, regional Pakistani E&P Company, recognized for its people, partnerships and performance," the Company continues to be guided by our shared values. The Company is made up of people who share the same vision and apply the same values in pursuing that vision.

OGDCL's first ever Strategic and Business Plan quantifying physical and financial goals and objectives has been approved by the Board of Directors. The plan stipulates OGDCL's medium term physical and financial targets on a macro level which will form a basis for preparing detailed business plans and budgets on a yearly basis. The plan presents a broad framework relating to Company's vision, mission, values and goals and sets out its proposed strategies. These strategies cover all core areas including exploration, drilling, reservoir management, development and production.

Exploration and drilling strategies include maintenance of distinct balance commercial portfolio of exploration blocks in order to hedge risk, expanding exploratory efforts to unexplored and frontier areas, exploring old areas with new ideas and innovations, maintaining committed exploration effort level, acquisition of improved mud technology to reduce down hole problems, use of expandable liner technology in southern fields to improve drill time and contracting four more rigs with top drive system facilities.

Our strategies to enhance production and reserves concentrate to use latest acoustic technology to increase production from depleted field, increase workovers to exploit enhanced production from existing fields, early and expeditious production from discovered oil/gas fields, employing different secondary recovery techniques to optimize production from existing fields, applying improved oil recovery techniques to improve recovery from existing fields and reserves addition through accelerated exploration efforts.

OGDCL's results during 2005-06 reflect strong progress. Our strategy of growing the production base and focusing on high impact exploration, backed by solid financial position will add significant value for shareholders in the years to come.

Acknowledgements

Company's success during the year 2005-06 was defined by the number of factors like aggressive growth strategies, consistent execution, utilization of resources and strong oil and gas prices. The fundamental contributors to our success are the employees of OGDCL, and their dedication, resourcefulness and commitment were on display throughout the year. We would like to take this opportunity to express our sincere appreciation for the management team and all officers and staff who have individually and collectively through excellent teamwork contributed to the success we have achieved during the year.

The Directors would also like to express their gratitude to various departments of Provincial and Federal government, particularly the Ministry of Petroleum and Natural Resources for continued assistance and cooperation extended to the Company in the matters relating to its operations.

The Board of Directors is thankful to the suppliers, contractors, financial institutions, customers, service providers and joint venture partners for their support, which is the key to the success of the Company. The Directors also wish to express their thanks for the continued interest and support of the shareholders and simultaneously hold out an assurance that their interests are prime concern of the Board of Directors and Company's Management.

On behalf of the Board

Arshad Nasar
Chairman /CEO

August 15, 2006

Pattern of Shareholdings
as at June 30, 2006

Number of Share holdres	Shareholdings		Total Shares Held
1,637	1	100	73,381
2,874	101	500	1,107,466
9,949	501	1,000	9,815,869
6,099	1,001	5,000	13,643,137
834	5,001	10,000	6,328,928
459	10,001	20,000	6,847,099
174	20,001	30,000	4,459,726
95	30,001	40,000	3,391,783
76	40,001	50,000	3,523,048
69	50,001	75,000	4,326,804
47	75,001	100,000	4,250,520
50	100,001	150,000	6,093,818
31	150,001	200,000	5,334,052
16	200,001	250,000	3,496,033
13	250,001	300,000	3,616,404
13	300,001	400,000	4,318,426
10	400,001	500,000	4,490,013
12	500,001	600,000	6,496,240
4	600,001	700,000	2,651,195
7	700,001	800,000	5,297,424
6	800,001	900,000	5,105,158
6	900,001	1,000,000	5,695,880
17	1,000,001	1,500,000	20,503,830
8	1,500,001	2,000,000	14,144,560
8	2,000,001	3,000,000	19,546,500
4	3,000,001	5,000,000	15,894,600
4	5,000,001	8,000,000	24,561,645
1	8,000,001	9,000,000	9,077,600
1	9,000,001	4,100,000,000	4,086,837,261
22,524			4,300,928,400

Categories of Shareholders

as at June 30, 2006

Categories of Shareholders	Number of Share Holders	Shares Held	Percentage
Individuals	21,890	64,648,993	1.50
Investment Companies	28	11,063,863	0.26
Insurance Companies	22	10,812,411	0.25
Joint Stock Companies	244	15,279,322	0.36
Banks, DFIs, NBFIs	47	26,044,819	0.61
Modarabas and Mutual Funds	60	54,126,001	1.26
Foreign Investors	59	27,727,190	0.64
Cooperative Societies	2	5,203	0.00
Charitable Trusts	8	157,677	0.00
Others	163	4,225,660	0.10
Government of Pakistan	1	4,086,837,261	95.02
TOTAL	22,524	4,300,928,400	100.00

Pattern of Shareholdings	Number of Share Holders	Shares Held	Percentage
Associated Companies, Undertakings and Related Parties and Share Holders holding 10% and above shares			
Government of Pakistan	1	4,086,837,261	95.02
NIT and ICP			
National Bank of Pakistan Trustee Department	1	5,488,757	0.13
National Investment Trust Limited	1	151,229	0.00
Investment Corporation of Pakistan	1	430,425	0.01
Directors, Chief Executive Officer and their spouses and minor children			
Mr. Pervaiz Kausar	1	20,000	0.00
Mr. Azam Faruque	1	3,105	0.00
Executives	3	7,759	0.00
Investment Companies	28	11,063,863	0.26
Insurance Companies	22	10,812,411	0.25
Joint Stock Companies	244	15,279,322	0.36
Banks, DFIs, NBFIs	44	19,974,408	0.46
Modarabas and Mutual Funds	60	54,126,001	1.26
Foreign Investors	59	27,727,190	0.64
Cooperative Societies	2	5,203	0.00
Charitable Trusts	8	157,677	0.00
Individuals	21,885	64,618,129	1.50
Others	163	4,225,660	0.10
TOTAL	22,524	4,300,928,400	100.00

SHAREHOLDINGS:

Shares held by Government of Pakistan also include shares held in trust by the eleven elected Directors. Shares held by Mr. Azam Faruque, Director and Mr. Aftab Ahmad, Chief Financial officer (and his wife) were purchased by them through Initial Public Offering by the Government @ Rs 32 per share. Mr. Pervaiz Kausar, Director purchased following shares during the year:

Date	Purchase Price	Average Rate Per Share	Holding as at June 30, 2006
31-05-2006	Rs. 2,650,917.67	Rs. 132.55	20,000

Review Report to the Members on Statement of Compliance with the Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Oil and Gas Development Company Limited ("the Company") to comply with the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2006.

KPMG TASEER HADI & Co.
Chartered Accountants
Islamabad
August 15, 2006

M. YOUSUF ADIL SALEEM & Co.
Chartered Accountants
Islamabad
August 15, 2006

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of all the three Stock Exchanges of the Country for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Government of Pakistan holds more than 95% stake in the Company and nominates all the directors. All the directors excluding Chairman are non-executive directors.

2. The Directors of the Company have confirmed that none of them is serving as a director in more than ten listed companies, including this company.

3. All the Directors of the Company are registered taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or being a member of a Stock Exchange has been declared as defaulter by the Stock Exchange.

4. All casual vacancies in the Board were filled in within 30 days thereof.

5. Vision, Mission Statements, Core Values, Goals, Statement of Ethics and Business Practices, Strategic & Business Plan of the Company have been prepared and approved by the Board. Further the Board is in the process of developing significant policies of the Company.

6. A complete record of particulars of significant policies and board decisions along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, CFO, Company Secretary, Head of Internal Audit and other Executive Directors have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and held at least in each quarter. Written notices of Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. Where the period was short for emergent meetings it was agreed by the members of the Board. The minutes of the meetings were appropriately recorded and circulated.

9. Almost all the directors are on the Boards of other companies and have adequate exposure of corporate matters and well aware of their duties and responsibilities. Appropriate orientation course of the directors is being arranged in consultation with the Board.

10. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters which are required to be disclosed.

11. The CEO and CFO have duly endorsed the financial statements of the Company before approval of the Board.

12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

13. The Company has complied with all the corporate and financial reporting requirements of the Code.

14. The audit committee comprises four members, including the Chairman of the committee. All members of the committee are non-executive directors.

15. The meetings of the audit committee were held in every quarter prior to approval of the interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and duly approved by the Board and advised to the committee for compliance.

16. An independent internal audit department was established even before the incorporation of OGDCL as a public limited company and is functioning in line with the company's policies and procedures. To augment the internal control function and make it more effective, the Board has approved terms of reference of Internal Audit Department.

17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on the code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

19. We confirm that all other material principles contained in the Code have been complied with except for those referred in preceding paragraphs and for that the company intends to seek compliance during next accounting year.

On behalf of the Board

Arshad Nasar
Chairman / CEO

Islamabad
August 15, 2006

Statement of Compliance with the Best Practices on Transfer Pricing for the year ended June 30, 2006

The Company has fully complied with the best practices on Transfer Pricing as contained in the respective Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges.

Arshad Nasar
Chairman / CEO

Islamabad
August 15, 2006

Financial Statements 2006

Auditors' Report to the Members of Oil and Gas Development Company Limited

We have audited the annexed balance sheet of Oil and Gas Development Company Limited ("the Company") as at June 30, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion-

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company.

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of Company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, Zakat deductible at source under Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KPMG TASEER HADI & Co.
Chartered Accountants
Islamabad
August 15, 2006

M. YOUSUF ADIL SALEEM & Co.
Chartered Accountants
Islamabad
August 15, 2006

Balance Sheet
as at June 30, 2006

	Note	2006	2005
		(Rupees '000)	
SHARE CAPITAL AND RESERVES			
Share capital	4	43,009,284	43,009,284
Capital reserve	5	2,219,027	1,995,996
Un-appropriated profit		49,541,966	38,204,702
		94,770,277	83,209,982
NON CURRENT LIABILITIES			
Deferred liabilities			
Taxation	6	10,010,991	8,948,288
Employee benefits	6	1,420,245	1,343,757
Provision for decommissioning cost	7	4,221,756	7,543,672
		15,652,992	17,835,717
CURRENT LIABILITIES			
Trade and other payables	8	7,174,483	13,533,234
Provision for taxation	9	3,716,958	-
		10,891,441	13,533,234
CONTINGENCIES AND COMMITMENTS	10	-	-
		121,314,710	114,578,933

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman and Chief Executive

	Note	2006	2005
		(Rupees '000)	
NON CURRENT ASSETS			
Property, plant and equipment	11	19,575,807	19,685,294
Development and production assets	12	21,653,562	21,537,276
Exploration and evaluation assets - intangible	13	2,551,149	1,225,968
Stores held for capital expenditure		677,441	802,041
		44,457,959	43,250,579
Long term investments	14	2,729,807	2,437,121
Long term loans and receivables	15	1,391,552	1,738,256
Long term prepayments		58,021	41,839
		48,637,339	47,467,795
CURRENT ASSETS			
Stores, spares and loose tools	16	12,829,747	7,578,153
Stock in trade		65,608	32,404
Trade debts	17	24,498,986	18,527,574
Loans and advances	18	1,835,159	1,417,718
Deposits and prepayments	19	300,260	263,720
Interest accrued		494,087	286,311
Other receivables	20	256,722	273,522
Advance tax	9	-	932,512
Short term investments	21	31,209,932	28,496,100
Cash and bank balances	22	1,186,870	9,303,124
		72,677,371	67,111,138
		121,314,710	114,578,933

Director

Profit and Loss Account
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
Net sales	23	96,755,382	73,710,101
Royalty		10,872,443	8,109,632
		85,882,939	65,600,469
Operating expenses	24	15,045,654	12,023,734
Exploration and prospecting expenditure	25	3,680,707	2,671,260
Transportation charges		942,163	760,092
		19,668,524	15,455,086
		66,214,415	50,145,383
General and administration expenses	26	1,071,979	823,305
Finance cost	27	9,973	5,955
Workers' Profit Participation Fund		3,469,017	2,580,011
		4,550,969	3,409,271
		61,663,446	46,736,112
Other income	28	4,247,881	2,284,104
PROFIT BEFORE TAXATION		65,911,327	49,020,216
Provision for taxation	29	19,943,604	16,052,316
PROFIT AFTER TAXATION		45,967,723	32,967,900
Earnings per share-basic and diluted (Rupees)	31	10.69	7.67

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman and Chief Executive

Director

Cash Flow Statement

for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
Cash flows from operating activities			
Profit before taxation		65,911,327	49,020,216
Adjustments for:			
Depreciation		2,370,871	2,730,031
Amortization of development and production assets		3,339,729	2,553,357
Royalty		10,872,443	8,109,632
Workers' Profit Participation Fund		3,469,017	2,580,011
Provision for employees' benefits		367,807	160,257
Interest income		(3,389,616)	(1,195,185)
Un-realized gain on investments at fair value through profit or loss		(21,523)	-
Dividend income		(398,970)	(273,195)
Profit on disposals of property, plant and equipment		(26,282)	(86,427)
Interest income on long term receivables		(82,752)	(114,192)
Provision for obsolete and slow moving inventory		47,452	-
Provision for doubtful trade debts		-	150,565
		82,459,503	63,635,070
Working capital changes			
(Increase)/decrease in current assets:			
Stock in trade and stores, spares and loose tools		(5,332,250)	475,417
Trade debts		(5,971,412)	(5,488,364)
Deposits and prepayments		(36,540)	(33,670)
Advances and other receivables		(60,191)	738,188
Increase in current liabilities:			
Trade and other payables		1,162,439	850,836
Cash generated from operations		72,221,549	60,177,477
Royalty paid		(10,297,744)	(7,977,819)
Employees' benefits paid		(1,349,931)	(205,149)
Payments of Workers' Profit Participation Fund		(3,380,011)	(2,656,071)
Taxes paid		(14,231,431)	(10,104,862)
		(29,259,117)	(20,943,901)
Net cash from operating activities		42,962,432	39,233,576
Cash flows from investing activities			
Fixed capital expenditure		(10,244,800)	(8,155,490)
Interest received		3,142,014	959,050
Dividend received		398,970	273,195
Purchase of investments		(463,000)	(1,275,091)
Proceeds from encashment of investments		12,140	-
Proceeds from disposals of property, plant and equipment		31,184	86,540
Long term prepayments		(16,182)	(14,124)
Net cash used in investing activities		(7,139,674)	(8,125,920)
Cash flow from financing activities			
Dividends paid		(41,444,703)	(18,615,861)
Net cash used in financing activities		(41,444,703)	(18,615,861)
(Decrease)/increase in cash and cash equivalents		(5,621,945)	12,491,795
Cash and cash equivalents at beginning of the year		37,799,224	25,307,429
Cash and cash equivalents at end of the year	33	32,177,279	37,799,224

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman and Chief Executive

Director

Statement of Changes in Equity
for the year ended June 30, 2006

	Share capital	Capital reserve	Un-appropriated profit	Total
		(Rupees '000)		
Balance as at June 30, 2004	43,009,284	1,659,614	31,378,756	76,047,654
Profit for the year ended June 30, 2005	-	-	32,967,900	32,967,900
Transfer to capital reserve	-	336,382	(336,382)	-
Final dividend 2004: Rs 1.25 per share	-	-	(5,376,161)	(5,376,161)
First interim dividend 2005: Rs 1.50 per share	-	-	(6,451,393)	(6,451,393)
Second interim dividend 2005: Rs 1.50 per share	-	-	(6,451,393)	(6,451,393)
Third interim dividend 2005: Rs 1.75 per share	-	-	(7,526,625)	(7,526,625)
Balance as at June 30, 2005	43,009,284	1,995,996	38,204,702	83,209,982
Profit for the year ended June 30, 2006	-	-	45,967,723	45,967,723
Transfer to capital reserve	-	223,031	(223,031)	-
Final dividend 2005: Rs 2.75 per share	-	-	(11,827,553)	(11,827,553)
First interim dividend 2006: Rs 1.25 per share	-	-	(5,376,161)	(5,376,161)
Second interim dividend 2006: Rs 1.75 per share	-	-	(7,526,625)	(7,526,625)
Third interim dividend 2006: Rs 2.25 per share	-	-	(9,677,089)	(9,677,089)
Balance as at June 30, 2006	43,009,284	2,219,027	49,541,966	94,770,277

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman and Chief Executive

Director

Notes to the Financial Statements
for the year ended June 30, 2006

1 LEGAL STATUS AND OPERATIONS

Oil and Gas Development Company Limited (OGDCL), "the Company", was incorporated on October 23, 1997 under the Companies Ordinance, 1984. The registered office of the Company is located at OGDCL House, Plot No. 3, F-6/G-6, Blue Area, Islamabad, Pakistan. The Company is deemed to own all the properties, rights, assets, obligations and liabilities of Oil and Gas Development Corporation (OGDC) as on that date. The Company is engaged in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities. During October 2003, Government of Pakistan (GoP) disinvested 5% of its shareholding through an Initial Public Offering and accordingly owns 95% of the shares of the Company. The Company is listed on all the three stock exchanges of Pakistan.

GoP through the Privatization Commission (“PC”), intends to disinvest 10%-15% of its equity holding in the Company through issuance of shares and Global Depository Receipts (“GDRs”). The GDRs will be listed on the London Stock Exchange.

2 STATEMENT OF COMPLIANCE AND SIGNIFICANT ESTIMATES

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and directives issued by the Securities and Exchange Commission of Pakistan. Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IAS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IAS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

2.2.1 Estimation of oil and natural gas reserves

Oil and gas reserves are an important element in impairment testing for development and production assets of the Company. Estimates of oil and natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Notes to the Financial Statements
for the year ended June 30, 2006

Changes to the estimates of proved reserves, particularly proved developed reserves, also affect the amount of depreciation, depletion and amortization recorded in the financial statements for fixed assets related to hydrocarbon production activities.

2.2.2 Provisions and liabilities

Provisions are recognized for the future decommissioning and restoration of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Estimates of the amounts of provisions and liabilities recognized are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take account of such changes.

2.2.3 Employee retirement plans

Defined benefits retirement plans are provided for permanent employees of the Company. The plans are typically structured as separate legal entities managed by trustees except compensated absences plan for which deferred liability is recognized in the Company’s financial statements. These calculations require assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and pension benefit levels, the expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. The assumptions used vary for the different plans as they are determined by independent actuaries annually.

The amount of the expected return on plan assets is calculated using the expected rate of return for the year and the market-related value at the beginning of the year. Pension cost primarily represents the increase in actuarial present value of the obligation for benefits earned on employee service during the year and the interest on the obligation in respect of employee service in previous years, net of the expected return on plan assets. Calculations are sensitive to changes in the underlying assumptions.

2.2.4 Property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments with a corresponding affect on the depreciation charge and impairment.

2.2.5 Taxation

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 ACCOUNTING CONVENTION

These financial statements have been prepared under the historical cost convention except that obligations under certain employee benefits and provision for decommissioning cost have been measured at present value, investments at fair value through profit or loss and investments available for sale have been measured at fair market value and investments held to maturity have been recognized at amortized cost.

Notes to the Financial Statements
for the year ended June 30, 2006

3.2 EMPLOYEE BENEFITS

3.2.1 Pension

The Company operates an approved funded pension scheme under an independent trust for its permanent employees, including those seconded to its wholly owned subsidiary Pirkoh Gas Company (Private) Limited as a defined benefit plan. Contribution is made to pension scheme on the basis of actuarial valuation carried out annually. The Projected Unit Credit Method is used to generate actuarial values. Contribution for the year is charged to income. Actuarial gains or losses are amortized over the expected average remaining working lives of the participating employees.

3.2.2 Post retirement medical benefits

The Company provides post retirement medical benefits to its permanent employees and their families, including those seconded to its wholly owned subsidiary Pirkoh Gas Company (Private) Limited as a defined benefit plan. Liability is provided annually on the basis of actuarial valuation carried out annually. The Projected Unit Credit Method is used to generate actuarial values. Actuarial gains or losses are amortized over the expected average remaining working lives of the participating employees.

3.2.3 Compensated absences

The Company has a policy whereby all its permanent employees falling under the category of staff including those seconded to its wholly owned subsidiary Pirkoh Gas Company (Private) Limited are able to encash leave balance at the time of retirement or during the service. Liability is provided on the basis of actuarial valuation carried out annually. The Projected Unit Credit Method is used to generate actuarial values. Actuarial gains or losses are amortized over the expected average remaining working lives of the employees.

3.3 TAXATION

3.3.1 Current

Provision for current taxation is based on taxable income at applicable tax rates, adjusted for payments to the GoP comprising royalty and levies.

3.3.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are recognized for all major taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized.

3.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Cost in relation to property, plant and equipment comprises acquisition and other directly attributable costs and decommissioning cost as referred in the note 3.6.5.

Depreciation is provided on straight-line method at rates specified in note 11 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives without taking into account any residual value. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Notes to the Financial Statements
for the year ended June 30, 2006

Maintenance and normal repairs are charged to income as and when incurred. Major improvements are capitalized and the assets so replaced, if any, are retired. Gain and losses on disposal of property, plant and equipment are credited or charged to income in the year of disposal.

Capital work in progress is stated at cost less impairment loss, if any, and are transferred to the respective property, plant and equipment when available for intended use.

3.5 STORES HELD FOR CAPITAL EXPENDITURE

Stores held for capital expenditure are valued at lower of cost determined under the moving average basis and net realizable value.

3.6 OIL AND GAS ASSETS

The Company applies the "successful efforts" method of accounting for exploration and evaluation (E&E) costs.

3.6.1 Pre-license costs

Costs incurred prior to having obtained the legal rights to explore an area are charged directly to the income statement as they are incurred.

3.6.2 Exploration and evaluation assets

Under the successful efforts method of accounting, all property acquisitions and exploratory and appraisal drilling costs are initially capitalized as intangible E&E assets in well, field or specific exploration cost centers as appropriate, pending determination. Expenditure capitalized during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed. All other exploration costs including cost of technical services and studies, seismic acquisition and processing are charged to income as they are incurred.

Tangible assets used in E&E activities such as the Company's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the company's exploration function are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilized in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

E&E assets are not amortized prior to the conclusion of appraisal activities.

Intangible E&E assets relating to each exploration license/field are carried forward, until the existence or otherwise of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered the carrying value, after any impairment loss of the relevant E&E assets is then reclassified as development and production assets. If, however, commercial reserves have not been found, the capitalized costs are charged to income after conclusion of appraisal activities.

3.6.3 Development and production assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy 3.6.2 above. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning.

Notes to the Financial Statements
for the year ended June 30, 2006

3.6.4 Impairment of oil and gas assets

E&E assets are assessed for impairment when facts and circumstances suggest that carrying amount may exceed its recoverable amount. Such indicators include, the point at which a determination is made that as to whether or not commercial reserves exist, the period for which the Company has right to explore has expired or will expire in the near future and is not expected to be renewed, substantive expenditure on further exploration and evaluation activities is not planned or budgeted and any other event that may give rise to indication that E&E assets are impaired.

Impairment test of development and production assets is also performed whenever events and circumstances arising during the development and production phase indicate that carrying amount of a development and production assets may exceed its recoverable amount.

The carrying value is compared against expected recoverable amount of the assets, generally by reference to the present value of the future net cash flows to be derived from production of commercial reserves. The cash generating unit applied for impairment test purpose is generally field-by-field basis, except that a number of fields may be grouped as a single cash generating unit where the cash flows of each field are inter dependent.

3.6.5 Decommissioning cost

A provision is recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Decommissioning cost, as appropriate, relating to producing/shut in fields and production facilities is capitalized to the cost of development and production fields or plant and machinery as the case may be. The amount recognized is the present value of the estimated future expenditure. A corresponding tangible fixed asset is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities and development and production assets. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset, however, increase in decommissioning cost due to unwinding of the discount is charged to profit and loss account.

During the year, the Company revised its estimates of outflows of resources to settle decommissioning liability based on future projected cost adjusted to present value. This has been treated as change in accounting estimates, applied prospectively, in accordance with IFRIC Interpretation 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities" which became applicable during the current accounting year.

Following line items would not have been effected had there been no change in estimates:

Provision for decommissioning cost would have been higher by	Rs	3,961.38	million
Fixed assets would have been higher by	Rs	265.66	million
Development and production assets would have been higher by	Rs	2,792.07	million
Depreciation and amortization charge would have been higher by	Rs	903.65	million
Un-appropriated profit would have been lower by	Rs	903.65	million

3.7 INVESTMENTS

3.7.1 Investments in subsidiaries and associated companies

Investments in subsidiaries and associates where significant influence can be established, are stated at cost and the carrying amount is adjusted for impairment, if any, in the recoverable amounts of such investments.

Notes to the Financial Statements
for the year ended June 30, 2006

Subsidiaries are those enterprises in which the Company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and/or appoint more than 50% of its directors.

Associates are those entities in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

3.7.2 Investments held to maturity

Investments with fixed or determinable payments and fixed maturity and where the Company has positive intent and ability to hold to maturity are classified as held to maturity. These are initially recognized at cost inclusive of transaction costs and are subsequently carried at amortized cost using the effective interest rate method.

3.7.3 Investments available for sale

All investments classified as available for sale are initially recognized at cost being fair value of consideration given. At subsequent reporting dates these investments are measured at fair value. Unrealized gains or losses from changes in fair values are recognized in equity. Realized gains and losses are taken to profit and loss account.

3.7.4 Investments at fair value through profit or loss

All investments classified as investments at fair value through profit or loss are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value with any resulting gains or losses recognized directly in the profit and loss account. The fair value of such investments is determined on the basis of prevailing market prices.

3.7.5 The Company recognised the regular way purchase or sale of investments using settlement date accounting.

3.8 STORES, SPARES AND LOOSE TOOLS

Stores, spares and loose tools are valued at the lower of cost and net realizable value less allowance for obsolete and slow moving items. Cost is determined on the moving average basis and comprises costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

3.9 STOCK IN TRADE

Stock in trade is valued at the lower of average annual cost (including appropriate production overheads) and net realizable value.

3.10 REVENUE RECOGNITION

Revenue from sales is recognized on delivery of products and/or on rendering of services to customers. Revenue from extended well testing is recognized as income. Effect of adjustments, if any, arising from revision in sale prices is reflected as and when the prices are finalized with the customers and/or approved by the GoP.

The Company recognizes interest if any, on delayed payments from customers on receipt basis.

Profits and losses of subsidiary and associated companies are carried forward in the financial statements of the subsidiary and associated companies and are not accounted for in the financial statements of the Company, except to the extent of dividend income from the subsidiary and associated companies.

Notes to the Financial Statements
for the year ended June 30, 2006

Income on bank deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Income on investments is recognized on time proportion basis taking into account the effective yield of such securities.

Dividend income on equity investments is recognized when the right to receive is established.

3.11 BORROWING COSTS

Mark up, interest and other charges on borrowing are charged to income in the period in which they are incurred.

3.12 JOINT VENTURE OPERATIONS

The Company has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policies are determined by the participant such that the operations itself has no significant independence to pursue its own commercial strategy. These contractual arrangements do not create a joint venture entity due to the fact that financial and operational policies of such joint venture are those of participants. The financial statements of the Company include its share of assets, liabilities and expenses in such joint venture operations which is pro-rata to Company's interest in the joint venture operations.

The Company's share of assets, liabilities and expenses in joint venture operations are accounted for on the basis of latest available audited financial statements of the joint venture operations and where applicable, the cost statements received from the operator of the joint venture, for the intervening period upto the balance sheet date.

3.13 FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities in foreign currencies are translated into Pak. rupees at the rate of exchange ruling on the balance sheet date with the exception of those in respect of which exchange risk cover is obtained, where these are stated at the committed rate. All exchange differences are charged to income for the year.

3.14 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. These are de-recognized when the Company ceases to be the party to the contractual provisions of the instrument.

Financial assets mainly comprise investments, loans, advances, deposits, trade debts and other receivables and cash and bank balances. Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant liabilities are creditors, accrued and other liabilities.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

3.15 OFF SETTING

Financial assets and liabilities and tax assets and liabilities are set off in the balance sheet, only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

Notes to the Financial Statements
for the year ended June 30, 2006

3.16 TRADE DEBTS

Trade debts are carried at nominal value less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

3.17 TRADE AND OTHER PAYABLES

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

3.18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and at bank and includes short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in the balance sheet at cost.

3.19 INTANGIBLES

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Company and that the cost of such asset can also be measured reliably. Intangible assets having definite useful life are stated at cost less accumulated amortization and are amortized based on the pattern in which the assets' economic benefits are consumed. Intangible assets which have indefinite useful life are not amortized and tested for impairment if any.

3.20 SELF INSURANCE SCHEME

The Company is following a policy to set aside contingency reserve for self insurance of rigs, wells, plants, pipelines, vehicles and workmen compensation and is keeping such reserve invested in specified investments.

3.21 RELATED PARTY TRANSACTIONS

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes as admissible, except in rare circumstances for some of the transactions with the wholly owned subsidiary, where, subject to the approval of the Board of Directors, it is in the interest of the Company to do so.

3.22 IMPAIRMENT

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in the profit and loss account.

Notes to the Financial Statements
for the year ended June 30, 2006

4 SHARE CAPITAL

Issued, subscribed and paid up capital

June 30, 2006 Number	June 30, 2005 Number		2006 (Rupees '000)	2005 (Rupees '000)
1,075,232,100	1,075,232,100	Ordinary shares of Rs 10 each issued for consideration other than cash (note 4.1)	10,752,321	10,752,321
3,225,696,300	3,225,696,300	Ordinary shares of Rs 10 each issued as fully paid bonus shares	32,256,963	32,256,963
4,300,928,400	4,300,928,400		43,009,284	43,009,284

4.1 In consideration for all the properties, rights, assets, obligations and liabilities of OGDC vested in the Company, 1,075,232,100 ordinary fully paid shares of Rs 10 each were issued to GoP on October 23, 1997. Currently, the GoP holds 95% paid up capital of the Company.

Authorized share capital

5,000,000,000 (2005: 5,000,000,000) ordinary shares of Rs 10 each.

5 CAPITAL RESERVE

The management has reclassified contingency reserve as capital reserve which has been set aside for self insurance of rigs, wells, plants, pipelines, vehicles and workmen compensation. Refer to note 14.2 for investments against contingency reserve. Accordingly, the reserve is not available for distribution.

6 DEFERRED LIABILITIES

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Taxation	6.1	10,010,991	8,948,288
Employee benefits			
Post retirement medical benefits	6.2	773,457	760,331
Compensated absences	6.3	646,788	583,426
		1,420,245	1,343,757
		11,431,236	10,292,045

Notes to the Financial Statements
for the year ended June 30, 2006

	2006	2005
	(Rupees '000)	
6.1 Deferred taxation		
The balance of deferred tax is in respect of following temporary differences:		
Accelerated depreciation on property, plant and equipment	2,431,552	2,362,625
Accelerated amortization of exploration, evaluation and development and production assets	7,925,860	6,585,663
Provision for doubtful debts	(88,186)	-
Provision for obselete and slow moving items	(258,235)	-
	10,010,991	8,948,288

Deferred tax liability has been calculated at the estimated effective tax rate of 33.06% (2005: 32.51%) after taking into account availability of depletion allowance and set offs where available in respect of royalty payment to the GoP.

	2006	2005
	(Rupees '000)	
6.2 Post retirement medical benefits		
Movements in the liability recognized in the balance sheet		
Balance at beginning of the year	760,331	748,708
Charge for the year	32,919	26,323
Benefits paid during the year	(19,793)	(14,700)
Net liability at end of the year	773,457	760,331
Reconciliation of the liability recognized in the balance sheet		
Present value of defined benefit obligation	538,894	450,173
Net actuarial gains not recognized	234,563	310,158
Net liability at end of the year	773,457	760,331
Particulars of charge for the year		
Current service cost	17,362	18,761
Interest cost	45,017	32,057
Actuarial gains recognized	(29,460)	(24,495)
	32,919	26,323

The latest actuarial valuation was carried out as at June 30, 2006. The rates of discount, medical cost increase and expected inflation were assumed at 10% (2005: 10%), 6% (2005: 6%) and 2% (2005: 2%) per annum respectively.

	Note	2006	2005
		(Rupees '000)	
6.3 Compensated absences			
Present value of defined benefit obligation		583,426	1,013,233
Charge for the year		63,362	243,646
Liability at end of the year		646,788	1,256,879
Payable to officers transferred to current liabilities	6.3.2	-	(673,453)
		646,788	583,426

Notes to the Financial Statements
for the year ended June 30, 2006

6.3.1 The liability provided for during the year is based on the latest actuarial valuation carried out as at June 30, 2006. The rates of discount and salary increase were assumed at 10% (2005: 10%) per annum.

6.3.2 Pursuant to a decision made by the Board of Directors of the Company, employees falling under the officers' category were allowed one time encashment in respect of leaves balance accumulated upto June 30, 2005. Accordingly, the actual amount payable to officers for their accumulated balance of leaves as on June 30, 2005 has been paid during the year.

7 PROVISION FOR DECOMMISSIONING COST

	2006 (Rupees '000)	2005 (Rupees '000)
Decommissioning cost of fields and production facilities		
Balance at beginning of the year	7,543,672	6,850,935
Provision made during the year	639,471	692,737
	8,183,143	7,543,672
Reversal of provision due to change in estimates	(3,961,387)	-
Balance at end of the year	4,221,756	7,543,672

The above provision for decommissioning cost is analyzed as follows:

	2006 (Rupees '000)	2005 (Rupees '000)
Fields	3,795,693	6,942,504
Production facilities	426,063	601,168
	4,221,756	7,543,672

The expected outflow of economic resources to settle this liability is upto 25 years.

8 TRADE AND OTHER PAYABLES

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Creditors		172,665	305,828
Accrued liabilities		2,250,575	1,337,706
Royalty		1,288,914	714,215
Excise duty		97,996	98,347
General sales tax		1,329,134	977,457
Payable to joint venture partners		1,071,201	1,060,659
Retention money		305,035	315,798
Un-paid dividend		237	7,533,464
Un-claimed dividend		538,344	42,392
Employees' pension trust	8.1	-	49,040
Compensated absences-current maturity		-	673,453
Payable to benevolent fund		-	336,119
Advances from customers		56,563	45,755
Other payables		63,819	43,001
		7,174,483	13,533,234

Notes to the Financial Statements
for the year ended June 30, 2006

	2006	2005
	(Rupees '000)	
8.1 Employees' pension trust		
Movements in the liability recognized in the balance sheet		
Balance at beginning of the year	49,040	43,320
Charge for the year	290,645	196,169
Payments to the fund made during the year	(339,685)	(190,449)
Balance at end of the year	-	49,040
Reconciliation of the liability recognized in the balance sheet		
Present value of defined benefit obligation	7,622,259	7,543,651
Fair value of plan assets	(8,340,395)	(7,543,484)
Net actuarial gains not recognized	718,136	48,873
Net liability at end of the year	-	49,040
Particulars of charge for the year		
Current service cost	297,080	312,929
Interest cost	747,913	442,772
Expected return on plan assets	(754,348)	(519,632)
Actuarial gains recognized	-	(39,900)
	290,645	196,169

The latest actuarial valuation was carried out as at June 30, 2006 using Projected Unit Credit Method. The discount rate for valuation, expected return on plan assets and salary increases were assumed to average 10% per annum (2005: 10% per annum) and pension increase was assumed at 3% per annum (2005: 3% per annum) Actual return on plan assets during the year was Rs 750 million (2005: Rs 834 million).

9 PROVISION FOR TAXATION

	2006	2005
	(Rupees '000)	
Advance tax at beginning of the year	(932,512)	(4,242,069)
Income tax paid during the year	(14,231,431)	(10,104,862)
Provision for taxation for the year - current	18,880,901	13,414,419
Tax payable/(advance tax) at end of the year	3,716,958	(932,512)

10 CONTINGENCIES AND COMMITMENTS

10.1 Claims against the Company not acknowledged as debts amounts to Rs 494.876 million (2005: Rs 471.5 million).

10.2 Commitments outstanding amounted to Rs 7,027.459 million (2005: Rs 5,590.313 million). These include amounts aggregating Rs 2,527.456 million (2005: Rs 1,891.604 million) representing the Company's share in the minimum work commitments related to operated/non-operated concessions.

10.3 Letters of credit issued by various banks outstanding at the year end amount to Rs 6,589.035 million (2005: Rs 2,342.852 million).

10.4 Certain banks have issued guarantees aggregating Rs 106.823 million (2005: Rs 369.933 million) on behalf of the Company in the ordinary course of business (refer note 22).

10.5 For contingencies relating to tax matters, refer to note 29.2.

Notes to the Financial Statements
for the year ended June 30, 2006

11 PROPERTY, PLANT AND EQUIPMENT

Description	Cost				Rate of depreciation (%)	Depreciation				Book value as at June 30, 2006
	As at July 01, 2005	Adjustments/ transfers	Additions/ (deletions)	As at June 30, 2006		As at July 01, 2005	Adjustments/ transfer	Charge for the year/ (on deletions)	As at June 30, 2006	
	(Rupees '000)					(Rupees '000)				
Freehold land	139,019	-	8,947	147,966	-	-	-	-	-	147,966
Leasehold land	363,026	-	10,672	373,698	1-3.3	115,863	-	10,160	126,023	247,675
Buildings, offices and roads on freehold land	1,696,160	(1,888)	129,362	1,823,634	2.5-8	361,581	-	95,302	456,883	1,366,751
Buildings, offices and roads on leasehold land	650,682	1,888	35,486	688,056	2.5-8	238,393	-	56,439	294,832	393,224
Plant and machinery	32,602,903	(3,505,761)	1,837,305	30,881,565	4-20	18,895,695	(2,439,437)	1,828,998	18,234,547	12,647,018
			(52,882)					(50,709)		
Rigs	734,984	-	142,646	872,360	10	571,816	-	27,814	594,437	277,923
			(5,270)					(5,193)		
Pipelines	4,254,337	3,505,761	172,753	7,932,851	10	2,705,018	2,439,437	387,433	5,531,888	2,400,963
Rolling stock	2,083,405	-	297,577	2,302,216	20	1,807,587	-	113,316	1,844,707	457,509
			(78,766)					(76,196)		
Office and domestic equipment	368,844	-	75,481	442,020	15	293,999	-	20,839	312,614	129,406
			(2,305)					(2,224)		
Office and technical data computers	416,157	-	63,008	479,164	30	380,098	-	31,983	412,081	67,083
			(1)							
Furniture and fixtures	49,556	-	1,173	50,729	15	13,762	-	6,444	20,206	30,523
Aircraft	19,855	-	-	19,855	10	17,869	-	-	17,869	1,986
Decommissioning cost	601,168		(175,105)	426,063	1-10	72,411		36,717	109,128	316,935
Total	43,980,096	-	2,599,305	46,440,177		25,474,092	-	2,615,445	27,955,215	18,484,962
			(139,224)					(134,322)		
Capital works in progress (11.3)	1,179,290	-	594,141	1,090,845	-	-	-	-	-	1,090,845
			(682,586)							
2006	45,159,386	-	2,510,860	47,531,022		25,474,092	-	2,615,445	27,955,215	19,575,807
			(139,224)					(134,322)		
2005	41,901,604	(30,229)	3,380,643	45,159,386		22,660,524	-	2,906,087	25,474,092	19,685,294
			(92,632)					(92,519)		

11.1 Cost and accumulated depreciation as at June 30, 2006 include Rs 11,601.413 million (2005: Rs 10,427.109 million) and Rs 6,159.241 million (2005: Rs 5,261.775 million) respectively being the Company's share in property, plant and equipment relating to joint ventures operated by others.

	2006	2005
	(Rupees '000)	
11.2 The depreciation expense for the year has been allocated to :		
Operating expenses (note 24)	2,289,751	2,663,727
General and administration expenses (note 26)	81,120	66,304
Technical services	244,574	176,056
	2,615,445	2,906,087

Notes to the Financial Statements
for the year ended June 30, 2006

	2006	2005
	(Rupees '000)	
11.3 Capital works in progress		
Production facilities and other civil works in progress		
Wholly owned	487,486	869,693
Joint ventures	578,013	273,341
	1,065,499	1,143,034
Construction cost of field offices and various bases/offices owned by the Company	25,346	36,256
	1,090,845	1,179,290

11.4 Detail of fixed assets disposed off during the year:

Description of assets disposed off	Cost	Book value	Sales price	Mode of disposal
		(Rupees)		
Pirkoh Gas Company (Private) Limited - wholly owned subsidiary company:				
Rollling stock	1,935,000	1,741,600	1,741,600	Transferred at book value
Other items	16,585,408	5,000	5,000	Transferred at book value
Retiring employees:				
Rolling stock	4,947,241	717,611	921,422	Sold to retiring employees, as per the Company's policy.
Mr. Saqib Nisar:				
Diesel engine	2,395,919	969,699	969,699	Sold through public auction
Diesel engine	2,395,919	678,620	678,620	Sold through public auction
Mr. Sultan Khan:				
Diesel engine	134,032	75,276	75,276	Sold through public auction
Oil pump	340,836	295,525	295,525	Sold through public auction
Mr. Shah-Uddin:				
Shaker STS	843,303	61,365	83,276	Sold through public auction
Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs 50,000	109,645,985	357,163	26,413,087	Sold through public auction
2006	139,223,643	4,901,859	31,183,505	
2005	92,631,439	112,500	86,539,842	

Notes to the Financial Statements
for the year ended June 30, 2006

12 DEVELOPMENT AND PRODUCTION ASSETS

	Cost			Amortization			Book value
	As at July 01, 2005	Additions/ (deletions)	As at June 30, 2006	As at July 01, 2005	For the year	As at June 30, 2006	As at June 30, 2006
				(Rupees '000)			
DRILLING COST							
Producing fields							
Wholly owned	12,531,822	1,831,969	14,363,791	7,594,408	1,307,875	8,902,283	5,461,508
Joint ventures	14,149,413	3,257,590	17,407,003	5,625,552	1,643,342	7,268,894	10,138,109
	26,681,235	5,089,559	31,770,794	13,219,960	2,951,217	16,171,177	15,599,617
Shut-in-fields							
Wholly owned	738,128	175,055	913,183	78,992	289,089	368,081	545,102
Joint ventures	1,989,786	1,107,032	3,096,818	56,877	84,208	141,085	2,955,733
	2,727,914	1,282,087	4,010,001	135,869	373,297	509,166	3,500,835
	29,409,149	**6,371,646**	**35,780,795**	**13,355,829**	**3,324,514**	**16,680,343**	**19,100,452**
Wells in progress (note 12.1)	993,002	4,592,576 (4,361,395)	1,224,183	-	-	-	1,224,183
Total drilling cost	**30,402,151**	**6,602,827**	**37,004,978**	**13,355,829**	**3,324,514**	**16,680,343**	**20,324,635**
Decommissioning cost	6,942,504	(3,146,811)	3,795,693	2,451,551	15,215	2,466,766	1,328,927
2006	**37,344,655**	**3,456,016**	**40,800,671**	**15,807,380**	**3,339,729**	**19,147,109**	**21,653,562**
2005	32,126,304	8,920,235 (3,701,883)	37,344,656	13,254,023	2,553,357	15,807,380	21,537,276

12.1 Wells in progress

	2006	2005
	(Rupees '000)	
Wholly owned	197,161	292,574
Joint ventures	1,027,022	700,428
	1,224,183	993,002

Notes to the Financial Statements
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
13 EXPLORATION AND EVALUATION ASSETS - INTANGIBLE			
Balance at beginning of the year		1,225,968	867,803
Additions in exploration and evaluation assets during the year		4,847,558	2,814,865
		6,073,526	3,682,668
Cost of dry and abandoned wells during the year		(1,512,128)	(1,363,443)
Cost of wells transferred to development and production assets		(2,010,249)	(1,093,257)
		(3,522,377)	(2,456,700)
Balance at end of the year		2,551,149	1,225,968
14 LONG TERM INVESTMENTS			
Investments in related parties	14.1	491,500	491,500
Investments held to maturity	14.2	2,238,307	1,945,621
		2,729,807	2,437,121
14.1 Investments in related parties			
Wholly owned subsidiary company - un-quoted			
Pirkoh Gas Company (Private) Limited, Pakistan Percentage holding 100% 1,254,000 fully paid ordinary shares of Rs 1,000 each (including 836,000 bonus shares). Breakup value based on audited financial statements was Rs 7,051,056 million (2005: Rs 7,227,247 million).		418,000	418,000
The Board of Directors of the Company in consultation with the Privatisation Commission of Pakistan has in principal approved the merger of the Subsidiary with the Company.			
Associated company - quoted			
Mari Gas Company Limited, Pakistan Percentage holding 20% 7,350,000 fully paid ordinary shares of Rs 10 each		73,500	73,500
Market value Rs 929.775 million (2005: Rs 1,430.678 million)		491,500	491,500
14.2 Investments held to maturity			
Defense Saving Certificates (DSCs)	14.2.1	673,307	622,684
Term Deposit Receipts (TDRs)	14.2.2	1,565,000	1,322,937
		2,238,307	1,945,621

14.2.1 Face value of investments in DSCs is Rs 158.249 million (2005: Rs 170.389 million). These carry effective interest rates ranging between 16% to 18% (2005: 16% to 18%) per annum and are due to mature in periods ranging between 2006 to 2009.

14.2.2 Face value of investments in TDRs is Rs 1,565 million (2005: Rs 1,322 million). These carry effective interest rates of 11% to 11.1% (2005: 7%) per annum and are due to mature in 2006.

Investments amounting to Rs 1,908.496 million (2005: Rs 1,386.407 million) are due to mature within next 12 months, however these have not been classified as current assets based on the management's intention to reinvest them in the like investments upto the extent of capital reserve.

These investments are identified against capital reserve (note 5).

Notes to the Financial Statements
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
15 LONG TERM LOANS AND RECEIVABLES			
Long term loans	15.1	919,725	815,781
Long term receivable - unsecured	15.2	471,827	922,475
		1,391,552	1,738,256

15.1 Long term loans

	Note	2006	2005
Long term loans - considered good:			
Executives		25,341	262
Other employees		1,058,237	947,705
		1,083,578	947,967
Current portion of long term loans	18	(163,853)	(132,186)
		919,725	815,781

15.1.1 Reconciliation of carrying amount of loans to executives and other employees:

	Balance as at July 01, 2005	Disbursements during the year	Repayments during the year	Balance as at June 30, 2006
		(Rupees '000)		
Due from:				
Executives	262	31,771	6,692	25,341
Other employees	947,705	271,912	161,380	1,058,237
	947,967	303,683	168,072	1,083,578

The above loans are granted to the employees of the Company in accordance with the Company's service rules. House building and conveyance loans are for maximum period of 15 and 5 years, respectively. These loans are secured against the underlying assets. Included in these are loans amounting to Rs 860.964 million (2005: Rs 736.707 million) which do not carry any interest. The balance amount carries an effective interest rate of 8.22% (2005: 8.22%) per annum.

The maximum amount due from executives at the end of any month during the year was Rs 25.341 million (2005: Rs 0.574 million).

15.2 Long term receivable-unsecured, considered good

	Note	2006	2005
		(Rupees '000)	
Long term receivable		1,066,800	1,600,200
Allowance for impairment		(61,573)	(144,325)
		1,005,227	1,455,875
Current portion	18	(533,400)	(533,400)
		471,827	922,475

Long term receivable represent the amount receivable from WAPDA on account of overdue balances of gas companies transferred to WAPDA as a result of inter-corporate debt adjustment approved by the GoP in April, 1999. Pursuant to the Economic Coordination Committee (ECC) of Cabinet decision in November 2001 and waiver of interest by the President of Pakistan in June 2002, the Company entered into agreements with three power generating companies namely Jamshoro Power Generation Company, The Central Power Generation Company and Northern Power Generation Company on 1st July 2002. The receivable carries no interest and is repayable in 5 years with one year grace period and is secured against WAPDA guarantee.

Notes to the Financial Statements
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In accordance with IAS 39 "Financial Instruments : Recognition and Measurement" an impairment loss has been recognized on this receivable which is the difference between the carrying amount and present value of expected future cash flows discounted at 7.5%, which is the imputed rate for interest calculation.

	2006	2005
	(Rupees '000)	
16 STORES, SPARES AND LOOSE TOOLS		
Stores, spares and loose tools	11,499,614	8,026,716
Stores and spares in transit	2,117,998	291,851
	13,617,612	8,318,567
Provision for obsolete and slow moving items	(787,865)	(740,414)
	12,829,747	7,578,153
17 TRADE DEBTS		
Trade debts - un-secured, considered good	24,498,986	20,449,868
Trade debts - un-secured, considered doubtful	177,737	177,737
	24,676,723	20,627,605
Un-recognized billing	-	(1,922,294)
	24,676,723	18,705,311
Provision for doubtful amount	(177,737)	(177,737)
	24,498,986	18,527,574

17.1 Uch Power Limited (UPL) had in pervious years withheld Rs 4.265 billion (2005: Rs 4.071 billion) against claims for damages related to minimum supply of gas. The GoP had constituted a committee to resolve this matter and on the advice of the committee, a settlement proposal has been finalized. Management has principally agreed to these proposals and this has resulted in liquidated damages of Rs 1.05 billion.

17.2 These include receivables of Rs 1.7 billion (2005: Rs 164.99 million) which have been withheld by the refineries under the directive of Ministry of Petroleum and Natural Resources. These represent revenue on crude oil in excess of USD 50 per barrel for which discount table is yet to be finalized.

17.3 These include receivables of Rs 2.58 billion (2005: Rs 1.46 billion) withheld by refineries on the direction of Directorate General Petroleum Concession pending finalization of Crude Oil Sale Agreements.

	2006	2005
	(Rupees '000)	
18 LOANS AND ADVANCES		
Advances considered good:		
Suppliers and contractors	315,433	219,983
Joint venture partners	799,664	473,338
Others	22,809	58,811
	1,137,906	752,132
Advances considered doubtful	269,052	271,049
Current portion of long term loans	163,853	132,186
Current portion of long term receivables	533,400	533,400
	2,104,211	1,688,767
Provision against doubtful advances	(269,052)	(271,049)
	1,835,159	1,417,718

Notes to the Financial Statements
for the year ended June 30, 2006

		Note	2006	2005
			(Rupees '000)	
19	**DEPOSITS AND PREPAYMENTS**			
	Security deposits		8,699	7,196
	Prepayments		291,561	256,524
			300,260	263,720
20	**OTHER RECEIVABLES**			
	Development surcharge		76,115	76,417
	Receivable from subsidiary company	20.1	27,682	38,095
	Claims receivable		14,940	14,711
	Workers' Profit Participation Fund	20.2	30,983	119,989
	Other receivables		107,002	24,310
			256,722	273,522

20.1 This represents net balance receivable from and payable to Pirkoh Gas Company Limited on account of support services. Maximum amount due from the subsidiary at the end of any month during the year was Rs 445.634 million as on 31 January 2006 (2005: Rs 127.963 million as on 31 May 2005).

		Note	2006	2005
			(Rupees '000)	
20.2	**Workers' Profit Participation Fund**			
	Receivable at beginning of the year		119,989	43,929
	Paid to the fund during the year		3,380,011	2,656,071
			3,500,000	2,700,000
	Expense for the year		(3,469,017)	(2,580,011)
	Receivable at end of the year		30,983	119,989
21	**SHORT TERM INVESTMENTS**			
	Investments at fair value through profit or loss		219,523	-
	Investments available for sale	21.1	30,990,409	28,496,100
			31,209,932	28,496,100

21.1 The Company has reclassified its term deposits receipts with bank and financial institutions as short term available for sale investments. Previously these investments were being classified as cash and bank balances. There is no effect of this change on the current and pervious year's profit and loss account and retained earnings. These represent investments in term deposit receipts maturing in the short term and carry interest rate of 4% to 11.4% (2005: 2.8% to 8.75%) per annum. Included in these investments are foreign currency term deposit receipts amounting to US $ 57 million (2005: US $ 10 million).

Notes to the Financial Statements
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	2006	2005
	(Rupees '000)	
22 CASH AND BANK BALANCES		
Cash at bank:		
Deposit accounts	1,036,555	9,041,843
Current accounts	124,152	221,802
Cash in hand	23,258	34,928
Cash in transit	2,905	4,551
	1,186,870	9,303,124

Deposit accounts include foreign currency deposits amounting to US $ 7.7 million (2005: US $ 53.61 million) which carry interest rate of 2.8% to 9.5% (2005: 2.75% to 8.5%) per annum. Deposits amounting to Rs 106.823 million (2005: Rs 369.069 million) with banks were under lien to secure bank guarantees.

	Note	2006	2005
		(Rupees '000)	
23 NET SALES			
Gross sales			
Crude oil		45,415,285	32,295,453
Gas		60,375,285	48,155,702
Kerosene oil		540,714	504,268
High speed diesel oil		414,990	237,380
Solvent oil		238,455	88,343
Naphtha		2,855,446	2,046,651
Liquefied petroleum gas		2,633,917	2,443,667
Sulphur		196,723	207,622
Other operating revenue	23.1	36,797	77,637
		112,707,612	86,056,723
Government levies			
Excise duty		(1,494,528)	(1,402,748)
Development surcharge		(50,280)	(78,718)
General sales tax		(14,407,422)	(10,865,156)
		(15,952,230)	(12,346,622)
Net sales		96,755,382	73,710,101
23.1 Other operating revenue			
Geophysical services		-	58,410
Seismic data		2,393	-
Drilling services		23,484	-
Engineering services		-	926
Mud engineering services		10,920	2,190
Cementation services		-	16,111
		36,797	77,637

Notes to the Financial Statements
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
24 OPERATING EXPENSES			
Salaries, wages and benefits	24.1	2,204,085	1,764,148
Travelling and transportation		291,995	221,983
Repairs and maintenance		550,356	697,997
Stores and supplies consumed		775,738	528,394
Rent and taxes		329,446	161,518
Insurance		226,141	204,406
Communication		29,951	30,669
Utilities		15,513	16,891
Land and crops compensation		122,161	108,499
Contract services		511,159	369,294
Joint venture expenses		1,669,655	1,181,247
Desalting, decanting and naphtha storage charges		198,082	146,961
Gas processing charges		111,313	99,906
Charges related to minimum supply of gas - liquidated damages		1,005,748	-
Welfare of locals at fields		213,210	131,119
Provision for doubtful trade debts		-	150,565
Provision for obsolete and slow moving inventory		47,452	-
Workover charges		407,672	386,667
Other expenses		3,808	1,556
Depreciation		2,289,751	2,663,727
Amortization of exploration and development expenditure		3,339,729	2,553,357
Transfer from general and administration expenses		735,893	551,894
		15,078,858	11,970,798
Stock of crude oil and other products:			
Balance at beginning of the year		32,404	85,340
Balance at end of the year		(65,608)	(32,404)
		15,045,654	12,023,734

24.1 These include amount in respect of employee retirement benefit of Rs 165.253 million (2005: Rs 261.596 million).

	2006	2005
	(Rupees '000)	
25 EXPLORATION AND PROSPECTING EXPENDITURE		
Cost of dry / abandoned wells	1,512,128	1,363,443
Prospecting expenditure	2,168,579	1,307,817
	3,680,707	2,671,260

Notes to the Financial Statements
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
26 GENERAL AND ADMINISTRATION EXPENSES			
Salaries, wages and benefits	26.1	1,015,633	844,616
Travelling and transportation		134,965	124,811
Repairs and maintenance		44,576	46,899
Stores and supplies consumed		118,945	57,132
Rent and taxes		31,230	47,929
Communication		35,524	42,950
Utilities		38,352	38,316
Training and scholarships		16,360	56,168
Legal services		5,005	20,931
Contract services		65,132	46,039
Auditors' remuneration	26.2	6,508	3,217
Advertising		55,781	38,614
Joint venture expenses		428,839	268,704
Insurance		1,944	339
Donations	26.3	61,764	4,764
Other expenses		12,586	8,781
Aircraft expenses		6,065	28,322
Un-allocated expenses of rigs		215,746	53,765
Depreciation		81,120	66,304
		2,376,075	1,798,601
Allocation of expenses to:			
Operations		(735,893)	(551,894)
Technical services		(502,743)	(316,286)
Pirkoh Gas Company (Private) Limited		(65,460)	(107,116)
		(1,304,096)	(975,296)
		1,071,979	823,305

26.1 These include amount in respect of employee retirement benefits of Rs 69.158 million (2005: Rs 88.421 million).

	2006	2005
	(Rupees '000)	
26.2 Auditors' remuneration:		
M/s KPMG Taseer Hadi & Co., Chartered Accountants		
Annual audit fee	968	880
Half yearly review	300	300
Out of pocket expenses	159	148
Audit of consolidated financial statements	212	193
Concession audit fee	1,300	-
Dividend certification	150	75
	3,089	1,596
M/s M. Yousuf Adil Saleem & Co., Chartered Accountants		
Annual audit fee	968	880
Half yearly review	300	300
Out of pocket expenses	159	148
Audit of consolidated financial statements	212	193
Verification of CDC record	150	-
Concession audit fee	1,450	-
Certification of fee payable to Oil and Gas Regulatory Authority	180	100
	3,419	1,621
	6,508	3,217

Notes to the Financial Statements
for the year ended June 30, 2006

26.3 Donations do not include any amount paid to any person or organization in which a director or his spouse had any interest.

	2006	2005
	(Rupees '000)	
27 FINANCE COST		
Bank charges	9,973	5,955
28 OTHER INCOME		
Income from financial assets		
Interest income on:		
- Investments and bank deposits	3,389,616	1,195,185
- long term receivables	82,752	114,192
- Delayed payments from JV partners	55,547	-
- Delayed payments from customers	6,504	-
Dividend income - from associated company	22,770	22,395
Dividend income - from subsidiary company	376,200	250,800
Un-realized gain on investments at fair value through profit or loss	21,523	-
Exchange gain	167,667	22,527
Income from non financial assets		
Insurance claim received	-	200,942
Profit on disposal of property, plant and equipment	26,282	86,427
(Loss)/gain on disposal of inventory	(3,258)	17,763
Write back of provision for benevolent fund	19,119	305,881
Others	83,159	67,992
	4,247,881	2,284,104
29 PROVISION FOR TAXATION		
Current-for the year (note 29.1)	18,880,901	13,414,419
Deferred	1,062,703	2,637,897
	19,943,604	16,052,316
29.1 Reconciliation of tax charge for the year :		
Accounting profit	65,911,327	49,020,216
Tax rate	52.91%	52.63%
Tax on accounting profit at applicable rate	34,875,067	25,798,849
Tax effect of amounts / expenses that are inadmissible for tax purposes	9,419,705	7,062,158
Tax effect of amounts / expenses that are admissible for tax purposes	(7,929,173)	(5,811,768)
Tax effect of royalty allowed for tax purposes	(10,872,443)	(8,109,632)
Tax effect of depletion allowance for tax purposes	(7,794,993)	(5,923,542)
Dividend chargeable to tax at reduced rate	19,948	13,660
Income chargeable to tax at corporate rates	1,162,790	384,694
	18,880,901	13,414,419

Notes to the Financial Statements

for the year ended June 30, 2006

29.2 Re-assessment proceedings for assessment years 1996-97 to 2002-03, tax years 2003 and 2004 are pending before the Taxation Officer in the light of the order of the Commissioner of Income Tax - Appeals (CIT(A)) and decision of the adjudicator appointed by both the Company as well as the Central Board of Revenue (CBR) on the issues of decommissioning cost and depletion allowances. The Company is in appeal before the CIT(A) against the assessment order passed u/s 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2004 and also in appeal before the Income Tax Appellate Tribunal (ITAT) for the assessment years 1996-97 to 2002-03 and tax year 2003.

On the basis of judgment of the adjudicator and the revised assessment an amount of Rs 4,686.026 million is refundable as against the demand created by the department of Rs 346.196 million for assessment years 1992-93 to 2002-03 and tax years 2003 and 2004. The provision for taxation in the financial statements has been made in accordance with the decision of the adjudicator, further the Company filed an application to CBR for resolution of the issues of decommissioning cost and depletion allowance through Alternate Dispute Resolution Committee (ADRC) for the assessment years 1996-97 to 2002-03 and tax years 2003 & 2004. The Committee has issued its recommendation, however final order from CBR is still awaited.

For tax year 2003, the Additional Commissioner (Audit) Companies Zone vide order No. 006/101 u/s 129/122(5A) dated June 26, 2006 while giving appeal effects in the light of CIT (A) order maintained the original assessment. The Company preferred an appeal against the impugned order before CIT (A) and a favorable decision is expected. The Company has also filed appeal against the order of the CIT (A) before the ITAT.

Pending the outcome of these appeals as well as ADRC's order, no provision has been made in these financial statements for the demand, since in the opinion of the management there is a reasonably fair chance that the appeal will be decided in favour of the Company.

30 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

30.1 Financial assets and liabilities

Rupees '000

		Interest / mark-up bearing							Non-interest / mark up bearing				
	Interest rates	Maturity upto one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one years	Maturity after one year	Sub-total	2006 Total	2005 Total
Financial assets:													
Investments													
- Local currency	8.25%-18%	29,471,496	329,811	-	-	-	-	29,801,307	219,523	-	219,523	30,020,830	29,845,621
- Foreign currency	4%-5%	3,427,410	-	-	-	-	-	3,427,410	-	-	-	3,427,410	596,100
Loans and advances	8.22%	520,711	567,368	46,587	51,329	41,845	-	1,227,840	127,589	733,376	860,965	2,088,805	2,403,842
Trade debts		-	-	-	-	-	-	-	24,498,986	-	24,498,986	24,498,986	18,527,574
Loans, advances, deposits and other receivables		-	-	-	-	-	-	-	121,942	-	121,942	121,942	39,761
Interest accrued		-	-	-	-	-	-	-	494,087	-	494,087	494,087	286,311
Cash and bank balances													
- Local currency	2.8%- 9.5%	573,554	-	-	-	-	-	573,554	150,315	-	150,315	723,869	6,703,532
- Foreign currency	2.8%	463,001	-	-	-	-	-	463,001	-	-	-	463,001	2,599,592
		34,456,172	897,179	46,587	51,329	41,845	-	35,493,112	25,612,442	733,376	26,345,818	61,838,930	61,001,593
Financial liabilities:													
Recognized													
Trade and other payables		-	-	-	-	-	-	-	5,690,790	-	5,690,790	5,690,790	12,411,675
		-	-	-	-	-	-	-	5,690,790	-	5,690,790	5,690,790	12,411,675
On balance sheet gap		34,456,172	897,179	46,587	51,329	41,845	-	35,493,112	19,921,652	733,376	20,655,028	56,148,140	48,589,918
Unrecognized													
Commitments (other than LCs)		-	-	-	-	-	-	-	7,027,459	-	7,027,459	7,027,459	5,590,313
Letters of credit		-	-	-	-	-	-	-	6,589,035	-	6,589,035	6,589,035	2,342,852
Guarantees		-	-	-	-	-	-	-	106,823	-	106,823	106,823	369,933
		-	-	-	-	-	-	-	13,723,317	-	13,723,317	13,723,317	8,303,098
		-	-	-	-	-	-	-	19,414,107	-	19,414,107	19,414,107	20,714,773

Notes to the Financial Statements
for the year ended June 30, 2006

30.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and balances with banks . The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of the total financial assets of Rs 61,838.930 million (2005: Rs 61,001.593 million), financial assets which are subject to credit risk amount to Rs 58,411.264 million (2005: Rs 58,011.138 million). To manage exposure to credit risk, the Company applies credit limits to its customers. Trade debts are essentially due from oil refining companies, oil and gas marketing companies and power generation companies and the Company does not expect these companies to fail to meet their obligations.

30.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables due to transaction with foreign buyer and supplier. Financial assets and liabilities includes Rs 3,951.84 million (2005: Rs 3,233.29 million) and Rs 230.30 million (2005: Rs 290.91 million) respectively which are exposed to currency risk.

30.4 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

30.5 Fair value of financial assets and liabilities

Financial assets and liabilities are stated at their fair value except for investments in subsidiary and associated companies which are stated at cost and investments held to maturity which are stated at amortised cost.

31 EARNINGS PER SHARE - BASIC AND DILUTED

	2006	2005
Net profit for the year (Rupees)	45,967,723,000	32,967,900,000
Average number of shares outstanding during the year	4,300,928,400	4,300,928,400
Earnings per share - basic and diluted (Rupees)	10.69	7.67

There is no dilutive effect on the earnings per share of the Company.

Notes to the Financial Statements
for the year ended June 30, 2006

32 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise subsidiary and associated companies, major shareholders, directors, companies with common directorship, key management staff and staff retirement benefit plans. Pursuant to the changes in International Accounting Standard 24 "Related Party Disclosures" state-controlled entities that are profit oriented are no longer exempted from disclosing transactions with other state-controlled entities. Accordingly, transactions of the Company with other profit oriented state-controlled entities and balance outstanding at the year end are also included in the disclosure below.

	2006	2005
	(Rupees '000)	
Subsidiary company- Pirkoh Gas Company (Private) Limited		
Dividend income	376,200	250,800
Services provided to subsidiary company by the Company		
- Cementation services	-	16,111
- Drilling services	23,484	-
- Engineering services	-	-
Gas processing charges	111,313	99,906
Technical support provided by the Company	65,460	107,116
Reimbursement of payroll expense	63,888	77,652
Stores and supplies transferred to the subsidiary company	120,522	84,013
Rent of dehydration plant charged by the subsidiary company	7,201	7,126
Transfer of property, plant and equipment - book value	1,747	1
Associated company - Mari Gas Company Limited		
Dividend income received	22,770	22,395
Related parties by virtue of common directorship and GoP holdings		
Pakistan Oilfields Limited		
Crude transmission charges paid	11,522	8,284
Sales of liquefied petroleum gas	252,331	246,889
Receivable as at 30 June	19,604	-
National Refinery Limited		
Sale of crude oil	7,471,947	5,848,738
Sale of naphtha	2,855,446	2,015,118
Amount receivable as at 30 June	2,001,718	1,692,084
Pakistan Refinery Limited		
Sale of crude oil	2,785,703	1,212,028
Receivable as at 30 June	1,165,805	443,857

Notes to the Financial Statements
for the year ended June 30, 2006

	2006	2005
	(Rupees '000)	
TRANSACTIONS WITH RELATED PARTIES - contd.		
Attock Refinery Limited		
Sale of crude oil	31,039,243	22,352,131
Sale of naphtha	-	31,533
Desalting/decanting charges paid	49,213	53,322
Receivable as at 30 June	9,107,657	5,427,833
Pak Arab Refinery Company Limited		
Sale of crude oil	2,838,771	2,342,553
Receivable as at 30 June	1,024,031	365,978
Sui Northern Gas Pipelines Limited		
Sale of natural gas	36,819,725	26,935,782
Purchase of high BTU value gas	1,262,932	1,054,912
Receivable as at 30 June	6,229,140	4,535,901
Sui Southern Gas Company Limited		
Sale of natural gas	16,274,822	13,296,829
Receivable as at 30 June	2,748,765	2,268,034
Pakistan State Oil Company Limited		
Sale of refined petroleum products	554,206	563,326
Purchase of petroleum, oil and lubricants	1,157,388	811,832
Receivable as at 30 June	95,624	326,142
National Insurance Company Limited		
Insurance premium paid	440,874	380,669
National Investment Trust		
Investment made	200,000	-
National Logistic Cell		
Crude transportation charges paid	655,003	450,896
Heavy Mechanical Complex		
Purchase of stores and spares	17,602	47,724
Water and Power Development Authority		
Sale of natural gas	118,534	224,349
Receipts against long term loan	533,400	533,400
Pak Datacom Limited		
V-sat charges	745	422
Enar Petrotech Services Limited		
Consultancy services	39,109	38,713
Sale of crude oil	1,537,278	859,880
Receivable as at 30 June	257,798	265,330

Notes to the Financial Statements
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
TRANSACTIONS WITH RELATED PARTIES - contd.			
Other related parties			
Contribution to staff benefit funds		367,807	160,257
Remuneration including benefits and perquisites of Chief Executive (note 32.1)		2,883	1,944
Remuneration including benefits and perquisites of executives. (note 32.1)		288,689	26,247

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuations modes as admissible, except in rare circumstances for some of the transactions with the wholly owned subsidiary, where, subject to the approval of the Board of Directors, it is in the interest of the Company to do so. Sale of crude oil to related parties is at a price determined in accordance with the agreed pricing formula as approved by GoP under respective agreement. Sale of natural gas to related parties is at price notified by the GoP whereas sale of Liquefied Petroleum Gas and Refined Petroleum Products is made at prices notified by Oil Companies Advisory Committee/Oil and Gas Regulatory Authority.

32.1 REMUNERATION TO CHIEF EXECUTIVES AND EXECUTIVES

The aggregate amount charged in these financial statements for the remuneration of the chief executives and executives were as follows:

	2006		2005	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)			
Managerial remuneration	1,660	110,112	1,095	16,756
Housing and utilities	751	64,135	624	3,259
Other allowances and benefits	377	95,729	66	2,855
Leave encashment	-	-	-	990
Medical benefits	95	8,203	123	536
Contribution to pension fund	-	10,510	36	1,851
	2,883	288,689	1,944	26,247
Number of persons including those who worked part of the period	2	173	2	12

The above were provided with medical facilities and are eligible for employee benefits for which contributions are made based on actuarial valuations. The Chief Executives and certain executives were provided with free use of cars.

The aggregate amount charged in these financial statements in respect of fee to 10 directors (2005: 14) was Rs 720,000 (2005: Rs 737,000).

Executive means any employee whose basic salary exceeds Rs 500,000 (2005: Rs 500,000) per year.

Notes to the Financial Statements
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
33 CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	1,186,870	9,303,124
Short term highly liquid investments	21	30,990,409	28,496,100
		32,177,279	37,799,224

34 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

34.1 International Accounting Standards Board (IASB) has issued an interpretation IFRIC-4 "Determining whether an Arrangement contains a Lease", which is effective for financial periods beginning on or after 1 January 2006. According to the said interpretation an arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed when the purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset. Such arrangements are to be accounted as a lease in accordance with the requirements of IAS 17- "Leases".

The Company's plant's control, due to purchase of total output by Uch Power Limited, appears to fall in the definition of leases. Had this interepretion been effective in the current year, following material adjustments to net income and balance sheet would have been made:

	(Rupees '000)		
	30 June 2006	30 June 2005	30 June 2004
Profit after tax as per financial statements as previously stated	45,967,723	32,967,900	22,414,461
Depreciation reversed	891,537	891,537	891,537
Amortization reversed	19,902	20,396	25,207
Finance income recognized	2,461,840	2,585,602	2,514,438
Sales revenue reversed	(2,509,191)	(2,625,339)	(2,545,339)
Tax impact at estimated effective rate	(285,667)	(283,551)	(264,070)
	46,546,144	33,556,545	23,036,234
Unappropriated profit brought forward	42,572,724	35,158,133	23,990,622
Net opening restatement IFRIC 4	-	-	3,157,604
Restated profit for the year	46,546,144	33,556,545	23,036,234
	89,118,868	68,714,678	50,184,460
Transfer to capital reserve	(223,031)	(336,382)	(295,647)
Dividends	(34,407,428)	(25,805,572)	(14,730,680)
Adjusted unappropriated profit	54,488,409	42,572,724	35,158,133
Unappropriated profit - local GAAP	49,541,966	38,204,702	31,378,756
Increase in current liabilities	(2,174,333)	(1,888,669)	(1,605,118)
Decrease in development assets	(805,808)	(825,709)	(846,105)
Decrease in propery, plant and equipment	(1,783,074)	(2,674,609)	(3,566,146)
Lease receivables recognized	9,709,658	9,757,009	9,796,746

The impact in 2007 financial statements will not be materially different from that given above.

Notes to the Financial Statements
for the year ended June 30, 2006

34.2 Considering the forthcoming adoption of IFRS 6, exploration and development expenditure has been classified as development and production assets. Further costs of exploratory wells in progress which were merged with exploration and development expenditure have now been classified as exploration and evaluation assets. This has been done for better presentation with no effect on the profit and loss account or retained earning.

35 CORRESPONDING FIGURES

The comparative figures have been rearranged and/or reclassified, wherever necessary, for the purpose of comparison in the financial statements. Major changes in the financial statements are as follows.

35.1 During the year the management has reclassified term deposits with banks and financial institution as investment held for sale. Refer note 21

35.2 Exploration and development expenditure have been classified as explained in note 34.2.

35.3 Revenue reserve for contingency has been reclassified as capital reserve.

36 GENERAL

36.1 Figures have been rounded to the nearest thousand of rupees, unless otherwise stated.

36.2 The Board of Directors proposed final dividend at the rate of Rs 3.75 per share in their meeting held on August 15, 2006.

36.3 These financial statements were authorized for issue by the Board of Directors in their meeting held on August 15, 2006.

Chairman and Chief Executive

Director

Consolidated Financial Statements 2006


PV.3026 (A)

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of Oil and Gas Development Company Limited and its subsidiary company as at June 30, 2006 and the related consolidated Profit and Loss Account, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of Oil and Gas Development Company Limited. The financial statements of the subsidiary company were audited by M/s KPMG Taseer Hadi & Co., Chartered Accountants as sole auditors, whose report was forwarded to M/s M. Yousuf Adil Saleem & Co., Chartered Accountants and their opinion insofar as it relates to the amounts included for such company is based solely on the report of M/s KPMG Taseer Hadi & Co., Chartered Accountants. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements present fairly the financial position of Oil and Gas Development Company Limited and its subsidiary company as at June 30, 2006 and the results of their operations for the year then ended.

KPMG TASEER HADI & Co.
Chartered Accountants
Islamabad
August 15, 2006

M. YOUSUF ADIL SALEEM & Co.
Chartered Accountants
Islamabad
August 15, 2006

Consolidated Balance Sheet
as at June 30, 2006

	Note	2006	2005
		(Rupees '000)	
SHARE CAPITAL AND RESERVES			
Share capital	4	43,009,284	43,009,284
Capital reserve	5	3,055,027	2,831,996
Un-appropriated profit		55,400,544	44,227,605
		101,464,855	90,068,885
NON CURRENT LIABILITIES			
Deferred liabilities			
Taxation	6	10,195,201	9,315,312
Employee benefits	6	1,420,245	1,343,757
Provision for decommissioning cost	7	5,036,478	8,965,834
		16,651,924	19,624,903
CURRENT LIABILITIES			
Trade and other payables	8	7,269,645	13,585,001
Provision for taxation	9	3,824,189	-
		11,093,834	13,585,001
CONTINGENCIES AND COMMITMENTS	10	-	-
		129,210,613	123,278,789

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman and Chief Executive

	Note	2006	2005
		(Rupees '000)	
NON CURRENT ASSETS			
Property, plant and equipment	11	20,096,218	20,394,898
Development and production assets	12	22,651,837	23,309,735
Exploration and evaluation assets-intangible	13	2,551,149	1,225,968
Stores held for capital expenditure		677,441	802,041
		45,976,645	45,732,642
Long term investments	14	2,373,330	2,068,776
Long term loans and receivables	15	2,154,705	2,726,540
Long term prepayments		58,022	41,839
		50,562,702	50,569,797
CURRENT ASSETS			
Stores, spares and loose tools	16	13,214,614	8,032,185
Stock in trade		65,608	32,404
Trade debts	17	24,500,791	18,733,396
Loans and advances	18	2,152,141	1,733,117
Deposits and prepayments	19	305,636	269,678
Interest accrued		556,018	311,763
Other receivables	20	239,229	237,344
Advance tax	9	-	979,229
Short term investments	21	36,209,932	32,496,100
Cash and bank balances	22	1,403,942	9,883,776
		78,647,911	72,708,992
		129,210,613	123,278,789

Director

Consolidated Profit and Loss Account
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
Net sales	23	97,309,036	74,852,852
Royalty		10,944,671	8,254,490
		86,364,365	66,598,362
Operating expenses	24	15,815,850	12,780,406
Exploration and prospecting expenditure	25	3,680,707	2,671,260
Transportation charges		942,163	760,092
		20,438,720	16,211,758
		65,925,645	50,386,604
General and administration expenses	26	1,077,159	938,748
Finance cost	27	9,981	6,089
Workers' Profit Participation Fund		3,480,082	2,592,949
		4,567,222	3,537,786
		61,358,423	46,848,818
Other income	28	4,364,167	2,218,538
Share of profit in associated company	14.1	34,638	32,320
PROFIT BEFORE TAXATION		65,757,228	49,099,676
Provision for taxation	29	19,953,830	16,089,823
PROFIT AFTER TAXATION		45,803,398	33,009,853
Earnings per share - basic and diluted (Rupees)	31	10.65	7.68

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman and Chief Executive

Director

Consolidated Cash Flow Statement
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
Cash flows from operating activities			
Profit before taxation		65,757,228	49,099,676
Adjustments for:			
Depreciation		2,598,545	2,948,834
Amortization of development and production assets		3,492,033	2,931,755
Royalty		10,944,671	8,254,490
Workers' Profit Participation Fund		3,480,082	2,592,949
Provision for employees' benefits		367,807	160,257
Interest income		(3,814,039)	(1,309,750)
Un-realized gain on investments at fair value through profit or loss		(21,523)	-
Profit on disposal of property, plant and equipment		(26,282)	(90,108)
Interest income on long term receivables		(172,571)	(203,716)
Share of profit in associated company		(34,638)	(32,320)
Provision/(write back of provision) for stores, spares and loose tools		50,213	(36,394)
Provision for doubtful trade debts		-	150,565
		82,621,526	64,466,238
Working capital changes			
(Increase)/decrease in current assets			
Stock in trade and stores, spares and loose tools		(5,265,846)	426,601
Trade debts		(5,767,395)	(5,458,560)
Deposits and prepayments		(35,958)	(33,333)
Loans, advances and other receivables		234,364	1,028,679
Increase in current liabilities			
Trade and other payables		1,216,183	858,841
Cash generated from operations		73,002,874	61,288,466
Royalty paid		(10,380,321)	(8,118,995)
Employees' benefits paid		(1,349,931)	(205,149)
Payment of Workers' Profit Participation Fund		(3,390,949)	(2,672,594)
Taxes paid		(14,270,523)	(10,115,004)
		(29,391,724)	(21,111,742)
Net cash from operating activities		43,611,150	40,176,724
Cash flows from investing activities			
Fixed capital expenditure		(10,267,094)	(8,167,033)
Interest received		5,529,958	1,056,900
Dividend received		22,770	22,395
Purchase of investments		(2,463,000)	(1,300,000)
Proceeds from encashment of investments		12,140	24,909
Proceeds from disposal of property, plant and equipment		29,437	90,237
Long term prepayments		(16,183)	(14,124)
Net cash used in investing activities		(7,151,972)	(8,286,716)
Cash flow from financing activities			
Dividends paid		(41,444,703)	(18,615,861)
Net cash used in financing activities		(41,444,703)	(18,615,861)
(Decrease)/increase in cash and cash equivalents		(4,985,525)	13,274,147
Cash and cash equivalents at beginning of the year		42,379,876	29,105,729
Cash and cash equivalents at end of the year	33	37,394,351	42,379,876

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman and Chief Executive

Director

Consolidated Statement of Changes in Equity
for the year ended June 30, 2006

	Share capital	Capital reserve Bonus shares	Capital reserve Contingency	Un-appropriated profit	Total
			(Rupees '000)		
Balance as at June 30, 2004	43,009,284	836,000	1,659,614	32,306,209	77,811,107
Change in policy with respect to dividends declared after balance sheet date	-	-	-	5,376,161	5,376,161
Effect of discounting of long term receivable				(322,664)	(322,664)
Balance as at June 30, 2004, as restated	43,009,284	836,000	1,659,614	37,359,706	82,864,604
Profit for the year ended June 30, 2005	-	-	-	33,009,853	33,009,853
Transfer to capital reserve	-	-	336,382	(336,382)	-
Final dividend 2004: Rs 1.25 per share	-	-	-	(5,376,161)	(5,376,161)
First interim dividend 2005: Rs 1.50 per share	-	-	-	(6,451,393)	(6,451,393)
Second interim dividend 2005: Rs 1.50 per share	-	-	-	(6,451,393)	(6,451,393)
Third interim dividend 2005: Rs 1.75 per share	-	-	-	(7,526,625)	(7,526,625)
Balance as at June 30, 2005	43,009,284	836,000	1,995,996	44,227,605	90,068,885
Balance as at June 30, 2005, as previously stated	43,009,284	836,000	1,995,996	44,475,756	90,317,036
Effect of discounting long term receivable				(248,151)	(248,151)
Balance as at June 30, 2005, as restated	43,009,284	836,000	1,995,996	44,227,605	90,068,885
Profit for the year ended June 30, 2006	-	-	-	45,803,398	45,803,398
Transfer to capital reserve	-	-	223,031	(223,031)	-
Final dividend 2005: Rs 2.75 per share	-	-	-	(11,827,553)	(11,827,553)
First interim dividend 2006: Rs 1.25 per share	-	-	-	(5,376,161)	(5,376,161)
Second interim dividend 2006: Rs 1.75 per share	-	-	-	(7,526,625)	(7,526,625)
Third interim dividend 2006: Rs 2.25 per share	-	-	-	(9,677,089)	(9,677,089)
Balance as at June 30, 2006	43,009,284	836,000	2,219,027	55,400,544	101,464,855

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman and Chief Executive

Director

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

1 LEGAL STATUS AND OPERATIONS

Oil and Gas Development Company Limited (OGDCL), "the Parent Company", was incorporated on October 23, 1997 under the Companies Ordinance, 1984. The Parent Company is deemed to own all the properties, rights, assets, obligations and liabilities of Oil and Gas Development Corporation (OGDC) as on that date. The Parent Company is engaged in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities. During October 2003, Government of Pakistan (GoP) disinvested 5% of its shareholding through an Initial Public Offering and accordingly owns 95% of the shares of the Parent Company. The Parent Company is listed on all the three stock exchanges of Pakistan.

GoP through the Privatization Commission (“PC”), intends to disinvest 10%-15% of its equity holding in the Company through issuance of shares and Global Depository Receipts (“GDRs”). The GDRs will be listed on the London Stock Exchange.

The Parent Company has a wholly owned subsidiary namely Pirkoh Gas Company (Private) Limited ("the Subsidiary Company"). The Subsidiary Company was incorporated in 1982 as a private limited company under the Companies Ordinance,1984. It is engaged in the exploration and development of natural gas resources, including production and sale of natural gas and related activities.

The Board of Directors of the subsidiary company in consultation with the Privatisation Commission of Pakistan has in principal approved the merger of the Subsidiary with the Parent Company.

The registered offices of both the Parent and the Subsidiary Companies, together constituting "the Group", are located at OGDCL House, Plot No. 3, F-6/G-6, Blue Area, Islamabad, Pakistan.

2 STATEMENT OF COMPLIANCE, BASIS OF CONSOLIDATION AND SIGNIFICANT ESTIMATES

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984 and directives issued by the Securities and Exchange Commission of Pakistan. Approved accounting standards comprise of such International Accounting Standards (IAS) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Parent Company and the Subsidiary Company together constituting "the Group" statements. Subsidiaries are those enterprises in which the Parent Company directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has power to elect and appoint more than 50 percent of its directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date the control commences until the date the control ceases. The financial statements of subsidiary have been consolidated on a line by line basis. All material inter company balances, transactions and resulting unrealized profits/(losses) have been eliminated.

Consolidated Notes to the Financial Statements

for the year ended June 30, 2006

2.3 SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with IAS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IAS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

2.3.1 Estimation of oil and natural gas reserves

Oil and gas reserves are an important element in impairment testing for development and production assets of the Group. Estimates of oil and natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Changes to the estimates of proved reserves, particularly proved developed reserves, also affect the amount of depreciation, depletion and amortization recorded in the financial statements for fixed assets related to hydrocarbon production activities.

2.3.2 Provisions and liabilities

Provisions are recognized for the future decommissioning and restoration of oil and gas wells, production facilities and pipelines at the end of their economic lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Estimates of the amounts of provisions and liabilities recognized are based on current legal and constructive requirements, technology and price levels. Because actual outflows can differ from estimates due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future, the carrying amounts of provisions and liabilities are regularly reviewed and adjusted to take account of such changes.

2.3.3 Employees' retirement plans

Defined benefits retirement plans are provided for permanent employees of the Group. The plans are typically structured as separate legal entities managed by trustees except compensated absences plan for which deferred liability is recognized in the Group’s financial statements. These calculations require assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration and pension benefit levels, the expected long-term return on plan assets and the discount rate used to convert future cash flows to current values. The assumptions used vary for the different plans as they are determined by independent actuaries annually.

The amount of the expected return on plan assets is calculated using the expected rate of return for the year and the market-related value at the beginning of the year. Pension cost primarily represents the increase in actuarial present value of the obligation for benefits earned on employee service during the year and the interest on the obligation in respect of employee service in previous years, net of the expected return on plan assets. Calculations are sensitive to changes in the underlying assumptions.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

2.3.4 Property, plant and equipment

The Group reviews the useful lives of property, plant and equipment on regular basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipments with a corresponding affect on the depreciation charge and impairment.

2.3.5 Taxation

The Group takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Group's view differs from the view taken by the income tax department at the assessment stage and where the Group considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 ACCOUNTING CONVENTION

These financial statements have been prepared under the historical cost convention except that obligations under certain employee benefits and provision for decommissioning cost have been measured at present value, investments at fair value through profit or loss and investments available for sale have been measured at fair market value and investments held to maturity have been recognized at amortized cost.

3.2 EMPLOYEE BENEFITS

3.2.1 Pension

The Group operates an approved funded pension scheme under an independent trust for its permanent employees as a defined benefit plan. Contribution is made to pension scheme on the basis of actuarial valuation carried out annually. The Projected Unit Credit Method is used to generate actuarial values. Contribution for the year is charged to income. Actuarial gains or losses are amortized over the expected average remaining working lives of the participating employees.

3.2.2 Post retirement medical benefits

The Group provides post retirement medical benefits to its permanent employees and their families as a defined benefit plan. Liability is provided annually on the basis of actuarial valuation carried out annually. The Projected Unit Credit Method is used to generate actuarial values. Actuarial gains or losses are amortized over the expected average remaining working lives of the participating employees.

3.2.3 Compensated absences

The Group has a policy whereby all its permanent employees falling under the category of staff are able to encash leave balance at the time of retirement or during the service. Liability is provided on the basis of actuarial valuation carried out annually. The Projected Unit Credit Method is used to generate actuarial values. Actuarial gains or losses are amortized over the expected average remaining working lives of the employees.

3.3 TAXATION

3.3.1 Current

Provision for current taxation is based on taxable income at applicable tax rates, adjusted for payments to the GoP comprising royalty and levies.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

3.3.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are recognized for all major taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized.

3.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation less impairment losses. Cost in relation to property, plant and equipment comprises acquisition and other directly attributable costs and decommissioning cost as referred in the note 3.6.5.

Depreciation is provided on straight-line method at rates specified in note 11 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful lives. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Major improvements are capitalized and the assets so replaced, if any, are retired. Gain and losses on disposal of property, plant and equipment are credited or charged to income in the year of disposal.

Capital work in progress is stated at cost less impairment loss, if any, and are transferred to the respective property, plant and equipment when available for intended use.

3.5 STORES HELD FOR CAPITAL EXPENDITURE

Stores held for capital expenditure are valued at lower of cost determined under the moving average basis and net realizable value.

3.6 OIL AND GAS ASSETS

The Group applies the “successful efforts” method of accounting for exploration and evaluation (E&E) costs.

3.6.1 Pre-license costs

Costs incurred prior to having obtained the legal rights to explore an area are charged directly to the income statement as they are incurred.

3.6.2 Exploration and evaluation assets

Under the successful efforts method of accounting, all property acquisitions and exploratory and appraisal drilling costs are initially capitalized as intangible E&E assets in well, field or specific exploration cost centers as appropriate, pending determination. Expenditure capitalized during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed. All other exploration costs including cost of technical services and studies, seismic acquisition and processing are charged to income as they are incurred.

Tangible assets used in E&E activities such as the Group’s vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Group's exploration function are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilized in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

E&E assets are not amortized prior to the conclusion of appraisal activities.

Intangible E&E assets relating to each exploration license/field are carried forward, until the existence or otherwise of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered the carrying value, after any impairment loss of the relevant E&E assets is then reclassified as development and production assets. If, however, commercial reserves have not been found, the capitalized costs are charged to income after conclusion of appraisal activities.

3.6.3 Development and production assets

Development and production assets are accumulated generally on a field-by-field basis and represent the cost of developing the commercial reserves discovered and bringing them into production, together with the capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets as outlined in accounting policy 3.6.2 above. The cost of development and production assets also includes the cost of acquisitions and purchases of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning.

3.6.4 Impairment of oil and gas assets

E&E assets are assessed for impairment when facts and circumstances suggest that carrying amount may exceed its recoverable amount. Such indicators include, the point at which a determination is made that as to whether or not commercial reserves exist, the period for which the Group has right to explore has expired or will expire in the near future and is not expected to be renewed, substantive expenditure on further exploration and evaluation activities is not planned or budgeted and any other event that may give rise to indication that E&E assets are impaired.

Impairment test of development and production assets is also performed whenever events and circumstances arising during the development and production phase indicate that carrying amount of development and production asset may exceed its recoverable amount.

The carrying value is compared against expected recoverable amount of the assets, generally by reference to the present value of the future net cash flows to be derived from production of commercial reserves. The cash generating unit applied for impairment test purpose is generally field-by-field basis, except that a number of fields may be grouped as a single cash generating unit where the cash flows of each field are inter dependent.

3.6.5 Decommissioning cost

A provision is recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Decommissioning cost, as appropriate, relating to producing/shut-in-fields and production facilities is capitalized to the cost of development and production fields or plant and machinery as the case may be. The amount recognized is the present value of the estimated future expenditure. A corresponding tangible fixed asset is also created at an amount equal to the provision. This is subsequently depreciated as part of the capital costs of the production facilities and development and production assets. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset, however, increase in decommissioning cost due to unwinding of the discount is charged to profit and loss account.

During the year, the Group revised its estimates of outflows of resources to settle decommissioning liability based on future projected cost adjusted to present value. This has been treated as change in accounting estimates, applied prospectively, in accordance with IFRIC Interpretation 1"Changes in Existing Decommissioning, Restoration and Similar Liabilities" which became applicable during the current accounting year.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

Following line items would not have been effected had there been no change in estimates:

Provision for decommissioning cost would have been higher by	Rs	4,599.20	million
Fixed assets would have been higher by	Rs	296.06	million
Development and production assets would have been higher by	Rs	3,317.17	million
Depreciation and amortization charge would have been higher by	Rs	985.97	million
Un-appropriated profit would have been lower by	Rs	985.97	million

3.7 INVESTMENTS

3.7.1 Investments in associated company

Investments in associates where significant influence can be established, are accounted for under the equity method. Equity method is applied from the date when significant influence is established.

Associates are those entities in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture of the Parent Company.

3.7.2 Investments held to maturity

Investments with fixed or determinable payments and fixed maturity and where the Group has positive intent and ability to hold to maturity are classified as held to maturity. These are initially recognized at cost inclusive of transaction costs and are subsequently carried at amortized cost using the effective interest rate method.

3.7.3 Investments available for sale

All investments classified as available for sale are initially recognized at cost being fair value of consideration given. At subsequent reporting dates these investments are measured at fair value. Unrealized gains or losses from changes in fair values are recognized in equity. Realized gains and losses are taken to profit and loss account.

3.7.4 Investments at fair value through profit or loss

All investments classified as investments at fair value through profit or loss are initially measured at cost being fair value of consideration given. At subsequent dates these investments are measured at fair value with any resulting gains or losses recognized directly in the profit and loss account. The fair value of such investments is determined on the basis of prevailing market prices.

3.7.5 The Company recognised the regular way purchase or sale of investments using settlement date accounting.

3.8 STORES, SPARES AND LOOSE TOOLS

Stores, spares and loose tools are valued at the lower of cost and net realizable value less allowance for obsolete and slow moving items. Cost is determined on the moving average basis and comprises costs of purchases and other costs incurred in bringing the inventories to their present location and condition. Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred in order to make a sale.

Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

3.9 STOCK IN TRADE

Stock in trade is valued at the lower of average annual cost (including appropriate production overheads) and net realizable value.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

3.10 REVENUE RECOGNITION

Revenue from sales is recognized on delivery of products and/or on rendering of services to customers. Revenue from extended well testing is recognized as income. Effect of adjustments, if any, arising from revision in sale prices is reflected as and when the prices are finalized with the customers and/or approved by the GoP.

The Group recognizes interest if any, on delayed payments from customers on receipt basis.

Income on bank deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Income on investments is recognized on time proportion basis taking into account the effective yield of such securities.

Dividend income on equity investments is recognized when the right to receive is established.

3.11 BORROWING COSTS

Mark up, interest and other charges on borrowing are charged to income in the period in which they are incurred.

3.12 JOINT VENTURE OPERATIONS

The Group has certain contractual arrangements with other participants to engage in joint activities where all significant matters of operating and financial policies are determined by the participants such that the operations itself has no significant independence to pursue its own commercial strategy. These contractual arrangements do not create a joint venture entity due to the fact that financial and operational policies of such joint venture are those of participants. The financial statements of the Group include its share of assets, liabilities and expenses in such joint venture operations which is pro-rata to Group's interest in the joint venture operations.

The Group's share of assets, liabilities and expenses in joint venture operations are accounted for on the basis of latest available audited financial statements of the joint venture operations and where applicable, the cost statements received from the operator of the joint venture, for the intervening period upto the balance sheet date.

3.13 FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange ruling on the date of the transaction. All monetary assets and liabilities in foreign currencies are translated into Pak. rupees at the rate of exchange ruling on the balance sheet date with the exception of those in respect of which exchange risk cover is obtained, where these are stated at the committed rate. All exchange differences are charged to income for the year.

3.14 FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. These are de-recognized when the Group ceases to be the party to the contractual provisions of the instrument.

Financial assets mainly comprise investments, loans, advances, deposits, trade debts and other receivables and cash and bank balances. Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant liabilities are creditors, accrued and other liabilities.

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

3.15 OFF SETTING

Financial assets and liabilities and tax assets and liabilities are set off in the balance sheet, only when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

3.16 TRADE DEBTS

Trade debts are carried at nominal value less provision for doubtful debts, if any. Balances considered bad and irrecoverable are written off when identified.

3.17 TRADE AND OTHER PAYABLES

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

3.18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and at bank and includes short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are carried in the balance sheet at cost.

3.19 INTANGIBLES

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Group and that the cost of such asset can also be measured reliably. Intangible assets having definite useful life are stated at cost less accumulated amortization and are amortized based on the pattern in which the assets' economic benefits are consumed. Intangible assets which have indefinite useful life are not amortized and tested for impairment if any.

3.20 SELF INSURANCE SCHEME

The Group is following a policy to set aside contingency reserve for self insurance of rigs, wells, plants, pipelines, vehicles and workmen compensation and is keeping such reserve invested in specified investments.

3.21 RELATED PARTY TRANSACTIONS

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuation modes as admissible, except in rare circumstances for some of the transactions with the wholly owned subsidiary, where, subject to the approval of the Board of Directors, it is in the interest of the Group to do so.

3.22 IMPAIRMENT

The carrying amount of the Group assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in the profit and loss account.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

4 SHARE CAPITAL

Issued, subscribed and paid up capital

June 30, 2006 Number	June 30, 2005 Number		2006 (Rupees '000)	2005 (Rupees '000)
1,075,232,100	1,075,232,100	Ordinary shares of Rs 10 each issued as fully paid for consideration other than cash (note 4.1)	10,752,321	10,752,321
3,225,696,300	3,225,696,300	Ordinary shares of Rs 10 each issued as fully paid bonus shares	32,256,963	32,256,963
4,300,928,400	4,300,928,400		43,009,284	43,009,284

4.1 In consideration for all the properties, rights, assets, obligations and liabilities of OGDC vested in the Parent Company, 1,075,232,100 ordinary fully paid shares of Rs 10 each were issued to GoP on October 23, 1997. Currently, the GoP holds 95% paid up capital of the Parent Company.

Authorized share capital

5,000,000,000 (2005: 5,000,000,000) ordinary shares of Rs 10 each.

5 CAPITAL RESERVE

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Bonus shares reserve	5.1	836,000	836,000
Capital reserve	5.2	2,219,027	1,995,996
		3,055,027	2,831,996

5.1 This represents bonus shares issued by the Subsidiary Company.

5.2 The Group has reclassified contingency reserve as capital reserve which has been set aside for self insurance of rigs, wells, plants, pipelines, vehicle and workmen compensation. Refer note 14.2 for investments against contingency reserve. Accordingly, the reserve is not available for distribution.

6 DEFERRED LIABILITIES

	Note	2006 (Rupees '000)	2005 (Rupees '000)
Taxation	6.1	10,195,201	9,315,312
Employee benefits:			
Post retirement medical benefits	6.2	773,457	760,331
Compensated absences	6.3	646,788	583,426
		1,420,245	1,343,757
		11,615,446	10,659,069

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

	2006	2005
	(Rupees '000)	
6.1 Deferred taxation		
The balance of deferred tax is in respect of following temporary differences:		
Accelerated depreciation on property, plant and equipment	2,405,755	2,365,623
Accelerated amortization of exploration, evaluation and development and production assets	8,160,917	6,949,689
Provision for doubtful debts	(88,186)	-
Provision for obselete and slow moving items	(283,285)	-
	10,195,201	9,315,312

Deferred tax liability has been calculated at the estimated effective tax rate of 33.06% (2005: 32.51%) after taking into account availability of depletion allowance and set offs where available in respect of royalty payment to the GoP.

	2006	2005
	(Rupees '000)	
6.2 Post retirement medical benefits		
Movements in the liability recognized in the balance sheet		
Balance at beginning of the year	760,331	760,331
Charge for the year	32,919	26,323
Benefits paid during the year	(19,793)	(26,323)
Net liability at end of the year	773,457	760,331
Reconciliation of the liability recognized in the balance sheet		
Present value of defined benefit obligation	538,894	450,173
Net actuarial gains not recognized	234,563	310,158
Net liability at end of the year	773,457	760,331
Particulars of charge for the year		
Current service cost	17,362	18,761
Interest cost	45,017	32,057
Actuarial gains recognized	(29,460)	(24,495)
	32,919	26,323

The latest actuarial valuation was carried out as at June 30, 2006. The rates of discount, medical cost increase and expected inflation were assumed at 10% (2005: 10%), 6% (2005: 6%) and 2% (2005: 2%) per annum respectively.

	Note	2006	2005
		(Rupees '000)	
6.3 Compensated absences			
Present value of defined benefit obligation		583,426	1,013,233
Charge for the year		63,362	243,646
Liability at end of the year		646,788	1,256,879
Payable to officers transferred to current liabilities	6.3.2	-	(673,453)
		646,788	583,426

6.3.1 The liability provided for during the year is based on the latest actuarial valuation carried out as at June 30, 2006. The rates of discount and salary increase were assumed at 10% per annum.

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for the year ended June 30, 2006

6.3.2 Pursuant to a decision made by the Board of Directors of the Parent Company, employees falling under the officers' category were allowed one time encashment in respect of leaves balance accumulated upto June 30, 2005. Accordingly, the actual amount payable to officers for their accumulated balance of leaves as on June 30, 2005 has been paid during the year.

	2006	2005
	(Rupees '000)	
7 PROVISION FOR DECOMMISSIONING COST		
Decommissioning cost of fields and production facilities		
Balance at beginning of the year	8,965,834	8,218,887
Provision made during the year	669,851	746,947
	9,635,685	8,965,834
Reversal of provision due to change in estimates	(4,599,207)	-
Balance at end of the year	5,036,478	8,965,834

The above provision for decommissioning cost is analyzed as follows:

	2006	2005
Fields	4,565,974	8,334,666
Production facilities	470,504	631,168
	5,036,478	8,965,834

The expected outflow of economic resources to settle this liability is upto 25 years.

	Note	2006	2005
		(Rupees '000)	
8 TRADE AND OTHER PAYABLES			
Creditors		172,665	305,828
Accrued liabilities		2,344,755	1,355,815
Royalty		1,288,914	724,564
Excise duty		97,996	103,497
General sales tax		1,329,134	990,648
Payable to joint venture partners		1,071,201	1,060,659
Retention money		305,035	315,798
Un-paid dividend		237	7,533,464
Un-claimed dividend		538,344	42,392
Employees' pension trust	8.1	-	49,040
Compensated absences-current maturity		-	673,453
Payable to benevolent fund		-	336,119
Advances from customers		56,563	45,755
Other payables		64,801	47,969
		7,269,645	13,585,001

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	2006	2005
	(Rupees '000)	
8.1 Employees' pension trust		
Movements in the liability recognized in the balance sheet		
Balance at beginning of the year	49,040	43,320
Charge for the year	290,645	196,169
Payments to the fund made during the year	(339,685)	(190,449)
Balance at end of the year	-	49,040
Reconciliation of the liability recognized in the balance sheet		
Present value of defined benefit obligation	7,622,259	7,543,651
Fair value of plan assets	(8,340,395)	(7,543,484)
Net actuarial gains not recognized	718,136	48,873
Net liability at end of the year	-	49,040
Particulars of charge for the year		
Current service cost	297,080	312,929
Interest cost	747,913	442,772
Expected return on plan assets	(754,348)	(519,632)
Actuarial gains recognized	-	(39,900)
	290,645	196,169

The latest actuarial valuation was carried out as at June 30, 2006 using Projected Unit Credit Method. The discount rate for valuation, expected return on plan assets and salary increases were assumed to average 10% per annum (2005: 10% per annum) and pension increase was assumed at 3% per annum (2005: 3% per annum) Actual return on plan assets during the year was Rs 750 million (2005: Rs 834 million).

	2006	2005
	(Rupees '000)	
9 PROVISION FOR TAXATION		
Advance tax at beginning of the year	(979,229)	(4,357,137)
Income tax paid during the year	(14,270,523)	(10,115,004)
Provision for taxation for the year - current	19,073,941	13,492,912
Tax payable/(advance tax) at end of the year	3,824,189	(979,229)

10 CONTINGENCIES AND COMMITMENTS

10.1 Claims against the Parent Company not acknowledged as debts amounts to Rs 494.876 million (2005: Rs 471.5 million).

10.2 Commitments outstanding against the Parent Company amounted to Rs 7,027.459 million (2005: Rs 5,590.313 million). These include amounts aggregating Rs 2,527.456 million (2005: Rs 1,891.604 million) representing Parent Company's share in the minimum work commitments related to operated/non-operated concessions.

10.3 Letters of credit issued by various banks outstanding against the Parent Company at the year end amounted to Rs 6,589.035 million (2005: Rs 2,342.852 million).

10.4 Certain banks have issued guarantees aggregating Rs 106.823 million (2005: Rs 369.933 million) on behalf of the Parent Company in the ordinary course of business.(Refer note 22)

10.5 For contingencies relating to tax matters, refer to note 29.2 .

Consolidated Notes to the Financial Statements
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11 PROPERTY, PLANT AND EQUIPMENT

Description	Cost				Rate of depreciation (%)	Depreciation				Book value as at June 30, 2006
	As at July 01, 2005	Adjustments/ transfers	Additions/ (deletions)	As at June 30, 2006		As at July 01, 2005	Adjustments/ transfers	Charge for the year/ (on deletions)	As at June 30, 2006	
	(Rupees '000)					(Rupees '000)				
Freehold land	139,019	-	8,947	147,966	-	-	-	-	-	147,966
Leasehold land	363,026	-	10,672	373,698	1 - 3.3	115,863	-	10,160	126,023	247,675
Buildings, offices and roads on freehold land	1,696,160	(1,888)	129,362	1,823,634	2.5-8	361,581		95,302	456,883	1,366,751
Buildings, offices and roads on leasehold land	750,432	1,888	35,486	787,806	2.5-8	288,885		61,963	350,848	436,958
Plant and machinery	35,024,906	(3,505,761)	1,840,026	33,321,742	4-20	20,698,918	(2,439,437)	2,037,401	20,261,622	13,060,120
			(37,429)					(35,260)		
Rigs	736,143	-	142,646	873,519	10	572,968	-	27,814	595,589	277,930
			(5,270)					(5,193)		
Pipelines	4,294,353	3,505,761	174,395	7,974,509	10	2,729,578	2,439,437	390,442	5,559,457	2,415,052
Rolling stock	2,138,704	-	315,225	2,378,230	20	1,862,134	-	119,083	1,906,346	471,884
			(75,699)					(74,871)		
Office and domestic equipment	375,076	-	75,516	448,287	15	299,385	-	20,992	318,153	130,134
			(2,305)					(2,224)		
Office and technical data computers	421,104	-	63,256	484,359	30	384,201	-	32,356	416,557	67,802
			(1)							
Furniture and fixtures	51,906	-	1,173	53,079	15	15,891	-	6,444	22,335	30,744
Aircraft	19,855	-	-	19,855	10	17,869	-	-	17,869	1,986
Decommissioning cost	631,168		(160,664)	470,504	1-10	78,972		41,161	120,133	350,371
Total	**46,641,852**	**-**	**2,636,040**	**49,157,188**		**27,426,245**	**-**	**2,843,118**	**30,151,815**	**19,005,373**
			(120,704)					**(117,548)**		
Capital works in progress (11.3)	1,179,290	-	594,141	1,090,845		-	-	-	-	1,090,845
			(682,586)							
2006	**47,821,142**	**-**	**2,547,595**	**50,248,033**		**27,426,245**	**-**	**2,843,118**	**30,151,815**	**20,096,218**
			(120,704)					**(117,548)**		
2005	44,565,912	(30,229)	3,393,185	47,821,141		24,408,951	-	3,124,890	27,426,243	20,394,898
			(107,727)					(107,598)		

11.1 Cost and accumulated depreciation as at June 30, 2006 include Rs 11,601.413 million (2005: Rs 10,427.109 million) and Rs 6,159.241million (2005: Rs 5,261.775 million) respectively being the Parent Company's share in property, plant and equipment relating to joint ventures operated by others.

	2006	2005
	(Rupees '000)	
11.2 The depreciation expense for the year has been allocated to :		
Operating expenses (note 24)	2,517,425	2,882,530
General and administration expenses (note 26)	81,120	66,304
Technical services	244,573	176,056
	2,843,118	3,124,890

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

		2006	2005
		(Rupees '000)	
11.3	**Capital works in progress**		
	Production facilities and other civil works in progress		
	Wholly owned	487,486	869,693
	Joint ventures	578,013	273,341
		1,065,499	1,143,034
	Construction cost of field offices and various bases/offices owned by the Company	25,346	36,256
		1,090,845	1,179,290

11.4 **Detail of fixed assets disposed off during the year:**

Description of assets disposed off	Cost	Book value	Sales price	Mode of disposal
		(Rupees)		
Retiring employees:				
Rolling stock	4,947,241	717,611	921,422	Sold to retiring employees, as per the Company's policy.
Mr. Saqib Nisar:				
Diesel engine	2,395,919	969,699	969,699	Sold through public auction
Diesel engine	2,395,919	678,620	678,620	Sold through public auction
Mr. Sultan Khan:				
Diesel engine	134,032	75,276	75,276	Sold through public auction
Oil pump	340,836	295,525	295,525	Sold through public auction
Mr. Shah-Uddin:				
Shaker STS	843,303	61,365	83,276	Sold through public auction
Aggregate of other items of property, plant and equipment with individual book value not exceeding Rs 50,000	109,645,985	357,163	26,413,087	Sold through public auction
2006	120,703,235	3,155,259	29,436,905	
2005	107,727,356	129,000	90,237,000	

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

12 DEVELOPMENT AND PRODUCTION ASSETS

	Cost			Amortization			Book value
	As at July 01, 2005	Additions/ (deletions)	As at June 30, 2006	As at July 01, 2005	For the year	As at June 30, 2006	As at June 30, 2006
	(Rupees '000)						
DRILLING COST							
Producing fields							
Wholly owned	15,268,074	1,831,969	17,100,043	9,647,197	1,398,345	11,045,542	6,054,501
Joint ventures	14,149,413	3,257,590	17,407,003	5,625,552	1,643,342	7,268,894	10,138,109
	29,417,487	5,089,559	34,507,046	15,272,749	3,041,687	18,314,436	16,192,610
Shut-in-fields							
Wholly owned	738,128	175,055	913,183	78,992	289,089	368,081	545,102
Joint ventures	1,989,786	1,107,032	3,096,818	56,877	84,208	141,085	2,955,733
	2,727,914	1,282,087	4,010,001	135,869	373,297	509,166	3,500,835
	32,145,401	6,371,646	38,517,047	15,408,618	3,414,984	18,823,602	19,693,445
Wells in progress (12.1)	993,002	4,592,576 (4,361,395)	1,224,183	-	-	-	1,224,183
Total drilling cost	33,138,403	6,602,827	39,741,230	15,408,618	3,414,984	18,823,602	20,917,628
Decommissioning cost	8,334,666	(3,768,692)	4,565,974	2,754,717	77,048	2,831,765	1,734,209
2006	41,473,069	2,834,135	44,307,204	18,163,335	3,492,032	21,655,367	22,651,837
2005	36,201,508	8,973,446 (3,701,883)	41,473,071	15,231,581	2,931,755	18,163,336	23,309,735

	2006	2005
	(Rupees '000)	
12.1 Wells in progress		
Wholly owned	197,161	292,574
Joint ventures	1,027,022	700,428
	1,224,183	993,002
13 EXPLORATION AND EVALUATION ASSETS-INTANGIBLE		
Balance at beginning of the year	1,225,968	867,803
Addition in exploration and evaluation assets during the year	4,847,558	2,814,865
	6,073,526	3,682,668
Cost of dry and abandoned wells during the year	(1,512,128)	(1,363,443)
Cost of wells transferred to development and production assets	(2,010,249)	(1,093,257)
	(3,522,377)	(2,456,700)
Balance at end of the year	2,551,149	1,225,968

Consolidated Notes to the Financial Statements
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	Note	2006	2005
		(Rupees '000)	
14 LONG TERM INVESTMENTS			
Investment in related party	14.1	135,023	123,155
Investments held to maturity	14.2	2,238,307	1,945,621
		2,373,330	2,068,776
14.1 Investment in related party			
Associated company - quoted			
Mari Gas Company Limited, Pakistan		123,155	113,230
Percentage holding 20%			
7,350,000 fully paid ordinary shares of Rs 10 each			
Market value Rs 929.775 million (2005: Rs 1,430.678 million)			
Share of profit for the year		34,638	32,320
Dividend received		(22,770)	(22,395)
		11,868	9,925
		135,023	123,155
14.2 Investments held to maturity			
Defence Saving Certificates (DSCs)	14.2.1	673,307	622,684
Term Deposit Receipts (TDRs)	14.2.2	1,565,000	1,322,937
		2,238,307	1,945,621

14.2.1 Face value of investments in DSCs is Rs 158.249 million (2005: Rs 170.389 million). These carry effective interest rates ranging between 16% to 18% (2005: 16% to 18%) per annum and are due to mature in periods ranging between 2006 to 2009.

14.2.2 Face value of investments in TDRs is Rs 1,565 million (2005: Rs1,322 million). These carry effective interest rates of 11-11.1% (2005: 7%) per annum and are due to mature in 2006.

Investments amounting to Rs 1,908.496 million (2005: Rs 1,386.407 million) are due to mature within next 12 months, however these have not been classified as current assets based on the management's intention to reinvest them in the like investments up to the extent of capital reserve.

These investments are identified against capital reserve (note 5).

	Note	2006	2005
		(Rupees '000)	
15 LONG TERM LOANS AND RECEIVABLES			
Long term loans	15.1	919,725	815,781
Long term receivables-unsecured	15.2	1,234,980	1,910,759
		2,154,705	2,726,540
15.1 Long term loans			
Long term loans, considered good:			
Executives		25,341	262
Other employees		1,058,237	947,705
		1,083,578	947,967
Current portion of long term loans	18	(163,853)	(132,186)
		919,725	815,781

Consolidated Notes to the Financial Statements
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15.1.1 Reconciliation of carrying amount of loans to executives and other employees:

	Balance as at July 01, 2005	Disbursements during the year	Repayments during the year	Balance as at June 30, 2006
	(Rupees '000)			
Due from:				
Executives	27,513	4,520	6,692	25,341
Other employees	920,454	299,163	161,380	1,058,237
	947,967	303,683	168,072	1,083,578

The above loans are granted to the employees of the Parent Company in accordance with the Parent Company's service rules. House building and conveyance loans are for maximum periods of 15 and 5 years, respectively. These loans are secured against the underlying assets. Included in these are loans amounting to Rs 860.964 million (2005: Rs 736.707 million) which do not carry any interest. The balance amount carries an effective interest rate of 8.22% (2005: 8.22%) per annum.

The maximum amount due from executives at the end of any month during the year was Rs 25.341 million (2005: Rs 0.574 million).

	Note	2006	2005
		(Rupees '000)	
15.2 Long term receivables-unsecured, considered good			
Long term receivables		2,350,325	3,198,675
Allowance for impairment		(266,995)	(439,566)
		2,083,330	2,759,109
Current portion	18	(848,350)	(848,350)
		1,234,980	1,910,759

Long term receivables include Rs 1,066.800 million (2005: Rs 1,600.200 million) receivable by the Parent Company from WAPDA on account of overdue balances of gas companies transferred to WAPDA as a result of inter-corporate debt adjustment approved by the Government of Pakistan in April, 1999. Pursuant to the Economic Coordination Committee (ECC) of Cabinet decision in November 2001 and waiver of interest by the President of Pakistan in June 2002, the Parent Company entered into agreements with three power generating companies namely Jamshoro Power Generation Company, The Central Power Generation Company and Northern Power Generation Company on 1st July 2002. The receivable carries no interest and is repayable in 5 years with one year grace period and is secured against WAPDA guarantee.

An amount of Rs 1,027.125 million (2005: Rs 1,213.875 million) and Rs 256.400 million (2005: Rs 384.600 million) included in the above represents amount receivable by the Subsidiary Company from Karachi Electric Supply Corporation Limited (KESC) and WAPDA, respectively as a result of the inter corporate adjustment pursuant to the ECC in February 1999. The amount from KESC is receivable in 32 equal quarterly installments of Rs 46.687 million each commencing from February 2004, while receivable from WAPDA is due in 10 equal semi annual installments of Rs 64 million starting from July 2003.In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" an impairment loss has been recognized on this receivable which is the difference between the carrying amount and present value of expected future cash flows discounted at 7.5% which is the imputed rate for interest calculation.

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	2006	2005
	(Rupees '000)	
16. STORES, SPARES AND LOOSE TOOLS		
Stores, spares and loose tools	11,967,646	8,561,445
Stores and spares in transit	2,117,998	291,851
	14,085,644	8,853,296
Provision for obsolete and slow moving items	(871,030)	(821,111)
	13,214,614	8,032,185
17 TRADE DEBTS		
Trade debts - un-secured, considered good	24,500,791	20,655,690
Trade debts - un-secured, considered doubtful	177,737	177,737
	24,678,528	20,833,427
Un-recognized billing	-	(1,922,294)
	24,678,528	18,911,133
Provision for doubtful amount	(177,737)	(177,737)
	24,500,791	18,733,396

17.1 Uch Power Limited (UPL) had in pervious years withheld Rs 4.265 billion (2005: Rs 4.071 billion) against claims for damages related to minimum supply of gas. The GoP had constituted a committee to resolve this matter and on the advice of the committee, a settlement proposal has been finalized. Management has principally agreed to these proposals and this has resulted in liquidated damages of Rs 1.05 billion.

17.2 These include receivables of Rs 1.7 billion (2005: Rs 164.99 million) which have been withheld by the refineries under the directive of Ministry of Petroleum and Natural Resources. These represent revenue on crude oil in excess of USD 50 per barrel for which discount table is yet to be finalized.

17.3 These include receivables of Rs 2.58 billion (2005: Rs 1.46 billion) withheld by refineries on the direction of Directorate General Petroleum Concession pending finalization of Crude Oil Sale Agreements.

	2006	2005
	(Rupees '000)	
18 LOANS AND ADVANCES		
Advances considered good:		
Suppliers and contractors	317,465	220,432
Joint venture partners	799,664	473,338
Others	22,809	58,811
	1,139,938	752,581
Advances considered doubtful	269,052	271,049
Current portion of long term loans	163,853	132,186
Current portion of long term receivables	848,350	848,350
	2,421,193	2,004,166
Provision against doubtful advances	(269,052)	(271,049)
	2,152,141	1,733,117

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

		Note	2006	2005
			(Rupees '000)	
19	**DEPOSITS AND PREPAYMENTS**			
	Security deposits		8,699	7,196
	Prepayments		296,937	262,482
			305,636	269,678
20	**OTHER RECEIVABLES**			
	Development surcharge		76,115	76,417
	Claims receivable		14,940	14,711
	Workers' Profit Participation Fund	20.1	32,033	121,166
	Other receivables		116,141	25,050
			239,229	237,344
20.1	**Workers' Profit Participation Fund**			
	Receivable at beginning of the year		121,166	41,521
	Paid to the fund during the year		3,390,949	2,672,594
			3,512,115	2,714,115
	Expense for the year		(3,480,082)	(2,592,949)
	Receivable at end of the year		32,033	121,166
21	**SHORT TERM INVESTMENTS**			
	Investments at fair value through profit or loss		219,523	-
	Investments available for sale	21.1	35,990,409	32,496,100
			36,209,932	32,496,100

21.1 The Group has reclassified its term deposits receipts with bank and financial institutions as short term available for sale investments. Previously these investments were being classified as cash and bank balances. There is no effect of this change on the current and pervious year's profit and loss account and retained earnings. These represent investments in term deposit receipts maturing in the short term and carry interest rate of 4% to 11.4% (2005: 2.8% to 8.75%) per annum. Included in these investments are foreign currency term deposit receipts amounting to US $ 57 million (2005: US $ 10 million).

		2006	2005
		(Rupees '000)	
22	**CASH AND BANK BALANCES**		
	Cash at bank:		
	Deposit accounts	1,234,452	9,603,266
	Current accounts	137,913	239,236
	Cash in hand	28,672	36,723
	Cash in transit	2,905	4,551
		1,403,942	9,883,776

Deposit accounts include foreign currency deposits amounting to US $ 7.85 million (2005: US $ 53.76 million) which carry interest rate of 2.8% to 9.5% (2005: 2.75% to 8.5%) per annum. Deposits amounting to Rs 106.823 million (2005: Rs 369.933 million) with banks were under lien to secure bank guarantees.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
23 NET SALES			
Gross sales			
Crude oil		45,415,285	32,295,453
Gas		61,075,573	49,572,291
Kerosene oil		540,714	504,268
High speed diesel oil		414,990	237,380
Solvent oil		238,455	88,343
Naphtha		2,855,446	2,046,651
Liquefied petroleum gas		2,633,917	2,443,667
Sulphur		196,723	207,622
Other operating revenue	23.1	13,313	61,526
		113,384,416	87,457,201
Government levies			
Excise duty		(1,525,770)	(1,475,703)
Development surcharge		(50,280)	(78,718)
General sales tax		(14,499,330)	(11,049,928)
		(16,075,380)	(12,604,349)
Net sales		97,309,036	74,852,852

23.1 Other operating revenue

	2006	2005
Geophysical services	-	58,410
Siesmic data	2,393	-
Engineering services	-	926
Mud engineering services	10,920	2,190
	13,313	61,526

Consolidated Notes to the Financial Statements
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	Note	2006	2005
		(Rupees '000)	
24 OPERATING EXPENSES			
Salaries, wages and benefits	24.1	2,470,512	1,988,285
Travelling and transportation		308,498	242,786
Repairs and maintenance		627,933	709,407
Stores and supplies consumed		802,332	566,214
Rent and taxes		323,299	107,286
Insurance		226,141	204,406
Communication		32,907	37,911
Utilities		16,653	18,656
Land and crops compensation		131,156	117,494
Contract services		533,481	376,612
Joint venture expenses		1,669,655	1,181,247
Desalting, decanting and naphtha storage charges		198,082	146,961
Charges related to minimum supply of gas-liquidated damages		1,005,748	-
Welfare of locals at fields		228,260	161,583
Provision for doubtful trade debts		-	150,565
Provision/(write back) for obsolete and slow moving inventory		50,213	(36,394)
Workover charges		409,320	386,664
Other expenses		4,053	1,608
Depreciation		2,517,425	2,882,530
Amortization of development and production expenditure		3,492,033	2,931,755
Transfer from general and administration expenses		801,353	551,894
		15,849,054	12,727,470
Stock of crude oil and other products:			
Balance at beginning of the year		32,404	85,340
Balance at end of the year		(65,608)	(32,404)
		15,815,850	12,780,406

24.1 These include amount in respect of employee retirement benefit of Rs 183.620 million (2005: Rs 286.160 million).

	2006	2005
25 EXPLORATION AND PROSPECTING EXPENDITURE		
Cost of dry / abandoned wells	1,512,128	1,363,443
Prospecting expenditure	2,168,579	1,307,817
	3,680,707	2,671,260

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

	Note	2006	2005
		(Rupees '000)	
26 GENERAL AND ADMINISTRATION EXPENSES			
Salaries, wages and benefits	26.1	1,019,635	852,153
Travelling and transportation		134,965	124,811
Repairs and maintenance		44,576	46,899
Stores and supplies consumed		118,960	57,167
Rent and taxes		32,065	48,528
Communication		35,524	42,950
Utilities		38,352	38,316
Training and scholarships		16,360	56,168
Legal services		5,005	20,931
Contract services		65,336	46,071
Auditors' remuneration	26.2	6,632	3,341
Advertising		55,781	38,614
Joint venture expenses		428,839	268,704
Insurance		1,944	339
Donations	26.3	61,764	4,764
Other expenses		12,586	8,781
Aircraft expenses		6,065	28,322
Un-allocated expenses of rigs		215,746	53,765
Depreciation		81,120	66,304
		2,381,255	1,806,928
Allocation of expenses to:			
Operations		(801,353)	(551,894)
Technical services		(502,743)	(316,286)
		(1,304,096)	(868,180)
		1,077,159	938,748

26.1 These include amount in respect of employee retirement benefit of Rs 69.158 million (2005: Rs 88.903 million).

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

		2006	2005
		(Rupees '000)	
26.2	**Auditors' remuneration:**		
	M/s KPMG Taseer Hadi & Co., Chartered Accountants:		
	Annual audit fee	968	880
	Subsidiary annual audit fee	110	110
	Half yearly review	300	300
	Out of pocket expenses	173	162
	Audit of consolidated financial statements	212	193
	Concession audit fee	1,300	-
	Dividend certification	150	75
		3,213	1,720
	M/s M. Yousuf Adil Saleem & Co., Chartered Accountants:		
	Annual audit fee	968	880
	Half yearly review	300	300
	Out of pocket expenses	159	148
	Audit of consolidated financial statements	212	193
	Verification of CDC record	150	-
	Concession audit fee	1,450	-
	Certification of fee payable to Oil and Gas Regulatory Authority	180	100
		3,419	1,621
		6,632	3,341

26.3 Donations do not include any amount paid to any person or organization in which a director or his spouse had any interest.

27 FINANCE COST

	2006	2005
Bank charges	9,981	6,089

28 OTHER INCOME

	2006	2005
Income from financial assets		
Interest income on:		
- Investments and bank deposits	3,814,039	1,309,750
- long term receivables	172,571	203,716
- delayed payments from JV partners	55,547	-
- delayed payments from customers	6,504	-
Un-realized gain on investments at fair value through profit or loss	21,523	-
Exchange gain	167,726	22,556
Income from non financial assets		
Insurance claim received	-	200,942
Profit on disposal of property, plant and equipment	26,282	90,108
Write back of provision for benevolent fund	19,119	305,881
(Loss)/gain on disposal of inventory	(2,320)	17,593
Others	83,176	67,992
	4,364,167	2,218,538

29 PROVISION FOR TAXATION

	2006	2005
Current - for the year (note 29.1)	19,073,941	13,492,912
Deferred	879,889	2,596,911
	19,953,830	16,089,823

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

29.1 Reconciliation of tax charge for the year :

	2006	2005
	(Rupees '000)	
Accounting profit	65,757,228	49,099,676
Tax rate	53.1960%	52.7942%
Tax on accounting profit at applicable rate	34,980,184	25,921,759
Tax effect of amounts / expenses that are inadmissible for tax purposes	9,768,227	7,433,186
Tax effect of amounts / expenses that are admissible for tax purposes	(8,228,953)	(6,034,649)
Tax effect of royalty allowed for tax purposes	(10,944,671)	(8,254,490)
Tax effect of depletion allowance for tax purposes	(7,840,622)	(6,015,928)
Dividend chargeable to tax at reduced rate	19,949	13,660
Income chargeable to tax at corporate rates	1,319,827	429,374
	19,073,941	13,492,912

29.2 Contingencies relating to tax:

Parent Company

Re-assessment proceedings for assessment years 1996-97 to 2002-03, tax years 2003 and 2004 are pending before the Taxation Officer in the light of the order of the Commissioner of Income Tax - Appeals (CIT(A)) and decision of the adjudicator appointed by both the Parent Company as well as the Central Board of Revenue (CBR) on the issues of decommissioning cost and depletion allowances. The Parent Company is in appeal before the CIT(A) against the assessment order passed u/s 122(5A) of the Income Tax Ordinance, 2001 for the tax year 2004 and also in appeal before the Income Tax Appellate Tribunal (ITAT) for the assessment years 1996-97 to 2002-03 and tax year 2003.

On the basis of judgment of the adjudicator and the revised assessment an amount of Rs 4,686.026 million is refundable as against the demand created by the department of Rs 346.196 million for assessment years 1992-93 to 2002-03 and tax years 2003 and 2004. The provision for taxation in the financial statements has been made in accordance with the decision of the adjudicator, further the Parent Company filed an application to CBR for resolution of the issues of decommissioning cost and depletion allowance through Alternate Dispute Resolution Committee (ADRC) for the assessment years 1996-97 to 2002-03 and tax years 2003 and 2004. The Committee has issued its recommendation, however final order from CBR is still awaited.

For tax year 2003, the Additional Commissioner (Audit) Companies Zone vide order No. 006/101 u/s 129/122(5A) dated June 26, 2006 while giving appeal effects in the light of CIT (A) order maintained the original assessment. The Parent Company preferred an appeal against the impugned order before CIT (A) and a favorable decision is expected. The Parent Company has also filed appeal against the order of the CIT (A) before the ITAT. Pending the outcome of these appeals as well as ADRC's order, no provision has been made in these financial statements for the demand, since in the opinion of the management there is a reasonably fair chance that the appeal will be decided in favour of the Parent Company.

Subsidiary Company

While framing assessment for the year 2002-03 the tax authorities disallowed decommissioning cost , provision for slow moving and obsolete items and recalculated depletion allowance on the basis of net receipts instead of gross receipts as claimed by the company. The net tax effect of said adjustment is Rs 315.178 million which has been adjusted against determined refunds of the company. Subsidiary Company's appeal is pending before Commissioner of Income Tax (Appeal).

Further the tax authorities in framing re-assessment for assessment year 2001-02 has again calculated the depletion allowance on the basis of net receipts instead of gross receipts as claimed by the Subsidiary Company. The net tax effect of which comes to Rs 66.212 million.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

In addition to above , the Subsidiary Company filed an application to CBR for resolution of the issue of decommissioning cost and depletion allowance through Alternate Dispute Resolution Committee (ADRC) for the assessment year 1998-99, 2001-02 and 2002-03. The Committee has issued its recommendations, however final order from CBR is still awaited.

Pending the outcome of these appeals and ADRC order no provision has been made in these accounts for the demand, since there is a reasonably fair chance that the appeal will be decided in favour of the Subsidiary Company.

The Subsidiary Company is in appeal before Lahore High Court , Rawalpindi Bench against an order of Income Tax Appellate Tribunal relating to assessment year 1995-96. By virtue of the said appellate order, the Subsidiary Company's taxability has been confirmed at the rate applicable to a private limited company resulting in a net tax exposure of Rs 178.20 million. The legal counsel of the Subsidiary Company is of the view that keeping in view assessed history of the company the case is likely to be decided in Subsidiary Company's favour.

30 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

30.1 Financial assets and liabilities

Rupees '000

		Interest / mark-up bearing							Non-interest / mark up bearing				
	Interest rates	Maturity upto one year	Maturity after one year and upto two years	Maturity after two years and upto three years	Maturity after three years and upto four years	Maturity after four years and upto five years	Maturity after five years	Sub-total	Maturity upto one years	Maturity after one year	Sub-total	2006 Total	2005 Total
Financial assets:													
Investments													
- Local currency	8.25%-18%	29,471,496	329,811	-	-	-	-	29,801,307	224,523	-	224,523	30,025,830	29,849,621
- Foreign currency	4%-5%	3,427,410	-	-	-	-	-	3,427,410	-	-	-	3,427,410	596,100
Long term receivables		-	-	-	-	-	-	-	763,153	314,950	1,078,103	1,078,103	1,303,234
Loans and advances	8.22%	520,711	567,368	46,587	51,329	41,845	-	1,227,840	127,589	733,376	860,965	2,088,805	2,403,842
Trade debts		-	-	-	-	-	-	-	24,500,791	-	24,500,791	24,500,791	18,733,396
Loans, advances, deposits and other receivables		-	-	-	-	-	-	-	131,081	-	131,081	131,081	39,761
Interest accrued		-	-	-	-	-	-	-	556,018	-	556,018	556,018	311,763
Cash and bank balances													
- Local currency	1.5%- 9.5%	762,298	-	-	-	-	-	762,298	169,489	-	169,489	931,787	7,275,191
- Foreign currency	2.8%	472,154	-	-	-	-	-	472,154	-	-	-	472,154	2,608,582
		34,654,069	897,179	46,587	51,329	41,845	-	35,691,009	26,472,644	1,048,326	27,520,970	63,211,979	63,121,490
Financial liabilities:													
Recognized													
Trade and other payables		-	-	-	-	-	-	-	5,785,952	-	5,785,952	5,785,952	12,445,101
		-	-	-	-	-	-	-	5,785,952	-	5,785,952	5,785,952	12,445,101
On balance sheet gap		34,654,069		46,587	51,329	41,845	-	35,691,009	20,686,692	1,048,326	21,735,018	57,426,027	50,676,389
Unrecognized													
Commitments (other than LCs)		-	-	-	-	-	-	-	7,027,459	-	7,027,459	7,027,459	5,590,313
Letters of credit		-	-	-	-	-	-	-	6,589,035	-	6,589,035	6,589,035	2,342,852
Guarantees		-	-	-	-	-	-	-	106,823	-	106,823	106,823	369,933
		-	-	-	-	-	-	-	13,723,317	-	13,723,317	13,723,317	8,303,098
		-	-	-	-	-	-	-	19,509,269	-	19,509,269	19,509,269	20,748,199

30.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The Group's credit risk is primarily attributable to its trade debts and balances with banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Group has no significant concentration of credit risk as the exposure is spread over a number of counter parties. Out of the total financial assets of Rs 63,211.979 million (2005: Rs 63,121.490 million), financial assets which are subject to credit risk amount to Rs 59,188.483 million (2005: Rs 58,788.383 million). To manage exposure to credit risk, the Group applies credit limits to its customers. Trade debts are essentially due from oil refining companies, oil and gas marketing companies and power generation companies and the Group does not expect these companies to fail to meet their obligations.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

30.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables due to transaction with foreign buyer and supplier. Financial assets and liabilities include Rs 3,970.146 million (2005: Rs 3,251.27 million) and Rs 230.30 million (2005: Rs 290.91 million), respectively, which are exposed to currency risk.

30.4 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Group follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

30.5 Fair value of financial assets and liabilities

Financial assets and liabilities are stated at their fair value except for investments in associated company which are stated under equity method and investments held to maturity which are stated at amortised cost.

31 EARNINGS PER SHARE - BASIC AND DILUTED

	2006	2005
	(Rupees '000)	
Net profit for the year (Rupees)	45,803,398,037	33,009,853,000
Average number of shares outstanding during the year	4,300,928,400	4,300,928,400
Earnings per share - basic and diluted (Rupees)	10.65	7.68

There is no dilutive effect on the earnings per share of the Group.

Consolidated Notes to the Financial Statements
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32 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise associated companies, major shareholders, directors, companies with common directorship, key management staff and staff retirement benefit plans. Pursuant to the changes in International Accounting Standard 24 "Related Party Disclosures" state-controlled entities that are profit oriented are no longer exempted from disclosing transactions with other state-controlled entities. Accordingly, transactions of the Group with other profit oriented state-controlled entities and balance outstanding at the year end are also included in the disclosure below.

	2006	2005
	(Rupees '000)	
Associated company - Mari Gas Company Limited		
Dividend income received	22,770	22,395
Related parties by virtue of common directorship and GoP holdings		
Pakistan Oilfields Limited		
Crude transmission charges paid	11,522	8,284
Sales of liquefied petroleum gas	252,331	246,889
Receivable as at 30 June	19,604	-
National Refinery Limited		
Sale of crude oil	7,471,947	5,848,738
Sale of naphtha	2,855,446	2,015,118
Receivable as at 30 June	2,001,718	1,692,084
Pakistan Refinery Limited		
Sale of crude oil	2,785,703	1,212,028
Receivable as at 30 June	1,165,805	443,857
Attock Refinery Limited		
Sale of crude oil	31,039,243	22,352,131
Sale of naphtha	-	31,533
Desalting/decanting charges paid	49,213	53,322
Receivable as at 30 June	9,107,657	5,427,833
Pak Arab Refinery Company Limited		
Sale of crude oil	2,838,771	2,342,553
Receivable as at 30 June	1,024,031	365,978
Sui Northern Gas Pipelines Limited		
Sale of natural gas	36,819,725	26,935,782
Purchase of high BTU value gas	1,262,932	1,054,912
Receivable as at 30 June	6,229,140	4,535,901
Sui Southern Gas Company Limited		
Sale of natural gas	16,274,822	13,296,829
Receivable as at 30 June	2,748,765	2,268,034

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

	2006	2005
	(Rupees '000)	
TRANSACTIONS WITH RELATED PARTIES-continued		
Pakistan State Oil Company Limited		
Sale of refined petroleum products	554,206	563,326
Purchase of petroleum, oil and lubricants	1,157,388	811,832
Receivable as at 30 June	95,624	326,142
National Insurance Company Limited		
Insurance premium paid	440,874	380,669
National Investment Trust		
Investment made	200,000	-
National Logistic Cell		
Crude transportation charges paid	655,003	450,896
Heavy Mechanical Complex		
Purchase of stores and spares	17,602	47,724
Water and Power Development Authority		
Sale of natural gas	118,534	224,349
Receipts against long term loan	661,600	661,600
Karachi Electric Supply Compnay Limited		
Receipts against long term loan	186,750	186,750
Pak Datacom Limited		
V-sat charges	745	422
Enar Petrotech Services Limited		
Consultancy services	39,109	38,713
Sale of crude oil	1,537,278	859,880
Receivable as at 30 June	257,798	265,330
Other related parties		
Contribution to staff benefit funds	367,807	160,257
Remuneration including benefits and perquisites of Chief Executive (note 32.1)	2,883	1,944
Remuneration including benefits and perquisites of executives. (note 32.1)	288,689	26,247

Transactions involving related parties arising in the normal course of business are conducted at arm's length at normal commercial rates on the same terms and conditions as third party transactions using valuations modes as admissible. Sale of crude oil to related parties is at a price determined in accordance with the agreed pricing formula as approved by GoP under respective agreement. Sale of natural gas to related parties is at price notified by the GoP whereas sale of Liquefied Petroleum Gas and Refined Petroleum Products is made at prices notified by Oil Companies Advisory Committee/Oil and Gas Regulatory Authority.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

32.1 REMUNERATION TO CHIEF EXECUTIVES AND EXECUTIVES

The aggregate amount charged in these financial statements for the remuneration of the chief executives and executives were as follows:

	2006		2005	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees '000)			
Managerial remuneration	1,660	110,112	1,095	16,756
Housing and utilities	751	64,135	624	3,259
Other allowances and benefits	377	95,729	66	2,855
Leave encashment	-	-	-	990
Medical benefits	95	8,203	123	536
Contribution to pension fund	-	10,510	36	1,851
	2,883	288,689	1,944	26,247
Number of persons including those who worked part of the period	2	173	2	12

The above were provided with medical facilities and are eligible for employee benefits for which contributions are made based on actuarial valuations. The Chief Executives and certain executives were provided with free use of cars.

The aggregate amount charged in these financial statements in respect of fee to 10 directors (2005:14) was Rs 720,000 (2005: Rs 737,000).

Executive means any employee whose basic salary exceeds Rs 500,000 (2005: Rs 500,000) per year.

	Note	2006	2005
		(Rupees '000)	
33 CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	1,403,942	9,883,776
Short term highly liquid investments	21	35,990,409	32,496,100
		37,394,351	42,379,876

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

34 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

34.1 International Accounting Standards Board (IASB) has issued an interpretation IFRIC-4 “Determining whether an Arrangement contains a Lease”, which is effective for financial periods beginning on or after 1 January 2006. According to the said interpretation an arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed when the purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset. Such arrangements are to be accounted as a lease in accordance with the requirements of IAS 17- “Leases”.

The Company’s plant’s control, due to purchase of total output by Uch Power Limited, appears to fall in the definition of leases. Had this interepretion been effective in the current year, following material adjustments to net income and balance sheet would have been made:

	(Rupees '000)		
	30 June 2006	30 June 2005	30 June 2004
Profit after tax as per financial statements as previously stated	45,967,723	32,967,900	22,414,461
Depreciation reversed	891,537	891,537	891,537
Amortization reversed	19,902	20,396	25,207
Finance income recognized	2,461,840	2,585,602	2,514,438
Sales revenue reversed	(2,509,191)	(2,625,339)	(2,545,339)
Tax impact at estimated effective rate	(285,667)	(283,551)	(264,070)
	46,546,144	33,556,545	23,036,234
Unappropriated profit brought forward	42,572,724	35,158,133	23,990,622
Net opening restatement IFRIC 4	-	-	3,157,604
Restated profit for the year	46,546,144	33,556,545	23,036,234
	89,118,868	68,714,678	50,184,460
Transfer to capital reserve	(223,031)	(336,382)	(295,647)
Dividends	(34,407,428)	(25,805,572)	(14,730,680)
Adjusted unappropriated profit	54,488,409	42,572,724	35,158,133
Unappropriated profit - local GAAP	49,541,966	38,204,702	31,378,756
Increase in current liabilities	(2,174,333)	(1,888,669)	(1,605,118)
Decrease in development assets	(805,808)	(825,709)	(846,105)
Decrease in propery, plant and equipment	(1,783,074)	(2,674,609)	(3,566,146)
Lease receivables recognized	9,709,658	9,757,009	9,796,746

The impact in 2007 financial statements will not be materially different from that given above.

34.2 Considering the forthcoming adoption of IFRS 6, exploration and development expenditure has been classified as development and production assets. Further costs of exploratory wells in progress which were merged with exploration and development expenditure have now been classified as exploration and evaluation assets. This has been done for better presentation with no effect on the profit and loss account or retained earning.

Consolidated Notes to the Financial Statements
for the year ended June 30, 2006

35 CORRESPONDING FIGURES

The comparative figures have been rearranged and/or reclassified, wherever necessary, for the purpose of comparison in the financial statements. Major changes in the financial statements are as follows.

35.1 During the year the management has reclassified term deposits with banks and financial institution as investment held for sale. Refer note 21

35.2 Exploration and development expenditure have been classified as explained in note 34.2.

35.3 Revenue reserve for contingency has been reclassified as capital reserve.

36 GENERAL

36.1 Figures have been rounded to the nearest thousand of rupees, unless otherwise stated.

36.2 The Board of Directors of the Parent Company proposed final dividend at the rate of Rs 3.75 per share in their meeting held on August 15, 2006.

36.3 These financial statements were authorized for issue by the Board of Directors of the Parent Company in their meeting held on August 15, 2006.

Chairman and Chief Executive

Director

Form of Proxy
Ninth Annual General Meeting

I / We ____ of

______________________________ being a member of Oil and Gas Development Company Limited and

holder of ______________ ordinary Shares as per Share Register Folio No. ______________

For beneficial owners as per CDC List

CDC Participant I.D. No. ______________ **Sub-Account No.** ______________

CNIC No. [| | | | | - | | | | | | | - |] or Passport No. ______________

Hereby appoint ______________________________ of ______________

or failing him / her ____ of
as my / our proxy to vote and act for me / our behalf at the Ninth Annual General Meeting of the Company to be held on September 29, 2006 or at any adjournment thereof.

Revenue Stamp

(Signature should agree with the specimen signature registered with the Company)

Signature of Shareholder ______________

Dated this __________ day of _______ 2006

Signature of Proxy ______________

For beneficial owners as per CDC list

1. WITNESS

Signature: ______________________________

Name: ______________________________

Address: ______________________________

CNIC No. [| | | | | - | | | | | | | - |]

or Passport No. ______________________________

2. WITNESS

Signature: ______________________________

Name: ______________________________

Address: ______________________________

CNIC No. [| | | | | - | | | | | | | - |]

or Passport No. ______________________________

Note:

1. Proxies, in order to be effective, must be received at the Registered Office of the Company at OGDCL House, F-6/G-6, Jinnah Avenue, Islamabad not less than 48 hours before the meeting.

2. CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card (CNIC) or Passport with the proxy form before submission to the Company (Original CNIC / Passport is required to be produced at the time of the meeting)

3. In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.

Entry Card

Ninth Annual General Meeting

Register Folio No: ______________________ Number of Shares held: ______________________

Name of Share Holder: ____

CNIC No. | | | | | | - | | | | | | | | - | |

For beneficial owners as per CDC List

CDC Participant I.D. No. _______________ Sub-Account No. _______________

CNIC No. | | | | | | - | | | | | | | | - | | or Passport No. _______________

Signature of Shareholder ______________________

Note:

1. The Signature of the shareholder must tally with specimen signature already on the record of the Company.
2. The Shareholders are requested to hand over the duly completed entry card at the counter before entering meeting premises.
3. This Entry Card is not transferable.